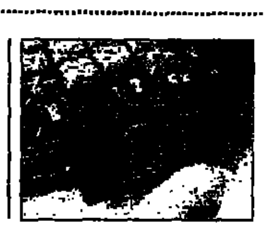
FINANCIAL TIMES

World Business Newspaper http://www.FT.com FRIDAY NOVEMBER 27 1998

FT Weekend tomorrow
Learning to live with Aids, now just a disease among other diseases



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WORLD NEWS

Schröder warns against deadlines for EU enlargement

Gerhard Schröder, visiting Brussels as German chancellor for the first time, warned against setting deadlines for eastward enlargement of the European Union. Enlargement should have the "character of a process" so that "we cannot say exactly when it should be completed", he said after meeting European Commission president Jacques Santer. **European news, Page 3**

Search on for new Turkish PM
Turkish president Süleyman Demirel met two party leaders in his search for a new prime minister after the forced resignation on corruption charges of Mesut Yilmaz. **European news, Page 2**

Cyprus pressed over missiles
President Glafcos Clerides of Cyprus will come under pressure in Athens to abandon plans to protect the Greek Cypriot half of the divided island with Russian missiles. **European news, Page 2**

Irish parliament welcomes Blair
Tony Blair became the first British prime minister to address the Irish parliament – the highest honour that the Irish state can bestow on a foreigner. **Page 16**

Aids vaccine projects launched
Two projects to develop Aids vaccines for poor countries were launched in London. The UK-Kenyan and USSouth African collaborations have been planned by the New York-based International Aids Vaccine Initiative. **International news, Page 5**

US looks for labour skills abroad
US foreign direct investment tends to favour countries with collective bargaining systems, workers' rights, skilled workforces and high labour costs rather than their opposites, say researchers at Wayne State University in the US. **Trade news, Page 6**

Counting the cost of Mitch
Officials from five Central American countries hit by Hurricane Mitch estimate rebuilding will cost them $4bn. **Costa Rica amnesty, Americas news, Page 4**

UK to boost Far East presence
Britain is to open extra consulates in China and Japan following a sweeping review of diplomatic representation overseas. **UK news, Page 11**

Calm returns to Chile
Santiago was quiet as protests in the Chilean capital over the fate of former dictator General Augusto Pinochet dissipated as fast as they had appeared. **Americas news, Page 4**

Money changers to be monitored
Pakistan's central bank has ordered a database of money changers' foreign currency transactions to find out more about the market. **Asian news, Page 7**

Indian rail crash kills scores
An Indian express ran into another passenger train that had jumped the tracks in north-western Punjab state. At least 108 people were killed.

Kenya bank faces IMF overhaul
An International Monetary Fund team is to overhaul the supervision department of the National Bank of Kenya, subject of a $34m government bailout. **International news, Page 5**

Suicide doctor on murder charge
Jack Kevorkian, a US doctor who advocates assisted suicide for the terminally ill, has been charged with murder for his role in ending a dying man's life. **Americas news, Page 4**

BUSINESS NEWS

ING profits leap 42% despite turmoil in emerging markets

ING, Dutch financial group, reported a 42 per cent leap in nine-month net profits to Fl 4.86bn ($2.5bn) despite emerging market turmoil and a rise in loan-loss provisions. **Companies and markets, Page 17**

Telefónica, Spanish telecommunications group, plans to invest $3.8bn in its Brazilian operations next year, giving a much-needed shot in the arm to Latin America's largest economy. **Companies and markets, Page 17**

Fiat shares surged by 7.2 per cent amid market speculation over a possible alliance and other strategic moves by the Italian automotive group's controlling Agnelli family. **European companies, Page 20**

Alitalia and KLM Royal Dutch Airlines are to sign a wide-ranging co-operation agreement that is expected to come close to a full operational merger. **International companies, Page 21**

Allianz, Europe's largest insurance group, predicted that its worldwide premium income would grow by 24 per cent this year to DM106bn ($62bn). **European companies, Page 20**

Richemont, Swiss-based tobacco and luxury goods conglomerate, reported a 3 per cent drop in first half net income to £193.9m. **European companies, Page 20**

DoubleClick, US internet advertising company, agreed to manage the advertising sales for Freeserve, the UK's second biggest internet service provider. **US companies, Page 22**

Japanese bonds: The yield on the benchmark Japanese government bond rose above one per cent for the first time in three months as investors dumped bonds. **Companies and markets, Page 17; Bonds, Page 26**

Hitachi, Japanese electronics conglomerate, announced a restructuring programme that will spin off two divisions. The move follows an across-the-board decline in sales. **Companies and markets, Page 17**

Virgin Entertainment postponed the sale of its Our Price music chain because potential venture capital purchasers were reluctant to proceed without evidence of satisfactory Christmas trading. **UK companies, Page 23**

J Sainsbury, UK based supermarket group, underlined its ambition to be a $10bn retailer in the US by acquiring Star Markets, a Boston based supermarket chain for $490m. **Companies and markets, Page 17**

Normandy Mining, Australia's largest gold producer, said it would realise an A$650m (US$416m) net profit on its gold hedge book. The "priority allocation" for proceeds would be gold mines and a magnesium metal project in Queensland. **Asia-Pacific companies, Page 18**

Kenya's chamber of commerce protested against a regulation which obliges all exports to Tanzania to be sold through a government-registered agent. **World trade news, Page 6**

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Don't expect copycat deals
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Regulators set to investigate Exxon-Mobil planned deal

Antitrust authorities poised as $238bn merger talks reach 'advanced stage'

By William Lewis in New York, Emma Tucker in Brussels, Christopher Parkes in Los Angeles and Richard Wolffe in Washington

US and European antitrust authorities are poised to launch detailed investigations into the planned takeover of Mobil, the second largest US oil and gas group, by Exxon, the world's largest energy group.

The Financial Times disclosed yesterday that negotiations between the two groups have reached an advanced stage. If successfully completed, the combined concern would have a market capitalisation of more than $238bn, making it the largest industrial merger ever.

Both companies have declined to comment on the takeover negotiations. However, people close to the deal said yesterday that a press conference was planned in New York for Monday or Tuesday. They cautioned that both companies' boards of directors had yet to agree and that even at an advanced stage of negotiation, large deals can collapse.

In Brussels, European Union competition authorities indicated that they expected to examine the prospective Exxon-Mobil deal under EU antitrust rules. An official said there was likely to be a high degree of co-operation between the EU and US competition authorities.

The European Commission's review seems likely to focus on Mobil's existing European joint venture with British Petroleum. The companies combined their European activities in the refining and marketing of fuels and lubricants two years ago.

In the US, the deal is likely to come under intense antitrust scrutiny by officials from the Competition Bureau of the Federal Trade Commission. The FTC, which has traditionally specialised in energy-related industries, has yet to complete its analysis of the proposed $55bn takeover of Amoco by BP, announced in August.

While the US stock market was closed yesterday for the Thanksgiving holiday, shares in Europe's largest oil companies surged on speculation that a takeover of Mobil by Exxon could lead to copy-cat deals. Analysts believe that the structure of the global oil industry is on the verge of fundamental change in the light of a possible prolonged period of deflated oil prices.

Royal Dutch/Shell, the second largest group behind Exxon, was the most heavily traded FTSE stock, ending up 14½p at 367p. In Paris, the two big oil companies Total and Elf-Aquitaine closed up 5.5 per cent at FFr690 and 4.7 per cent at FFr734 respectively.

On Wednesday evening Mobil's stock price closed at $75¾, up 4.6 per cent on the day, valuing the company at $61bn. Exxon's stock price closed at $72¾, giving it a market capitalisation of $177bn.

Proposed financial terms of the deal could not be established, but analysts said the large size difference between the companies would mean that advisers would find it difficult to structure it as a merger of equals.

Wall Street analysts said they expected the proposed merger to lead to substantial cost savings. BP/Amoco has set a target of $2bn a year in annual cost savings, and analysts estimate that an Exxon/Mobil link-up could yield cost savings of approximately $4bn a year.

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European oil shares lift, Page 20
World stocks, Page 38

Unexpected hitch: Chinese President Jiang Zemin, left, with Japanese prime minister Keizo Obuchi in Tokyo yesterday on the second day of his visit to Japan. The visit was marred by the failure of diplomats to sign a joint declaration including references to Japan's wartime history. Wounds left open, Page 16 Picture: AP

Italy puts pressure on Bonn over extradition for Ocalan

By James Blitz in Rome and Ralph Atkins in Bonn

Italy yesterday stepped up the pressure on Germany over the fate of Abdullah Ocalan, leader of the Kurdish Workers' party (PKK), insisting Bonn had a "moral responsibility" to file an order for his extradition from Rome.

Lamberto Dini, Italian foreign minister, made the comments before a meeting in Bonn today at which Gerhard Schröder, German chancellor, is expected to propose to Massimo D'Alema, Italian prime minister, ideas for resolving the dispute.

Mr Dini said further delay by Germany in issuing an extradition order for Mr Ocalan would "damage the fight against terrorism".

His remarks heightened the tension between Bonn and Rome following Germany's announcement last week it would refrain from seeking Mr Ocalan's immediate extradition – even though he is wanted in the country in connection with a murder and leadership of a terrorist organisation. Yesterday there was no sign of Bonn softening its line.

A possible solution could be to bring Mr Ocalan before a court in Italy under a 1977 European convention on terrorism. Alternative political solutions might be extradition to Turkey under certain conditions - particularly over the death penalty – or to a third country.

Bonn's dilemma is acute because of the threat of violent clashes erupting in Germany if Mr Ocalan was to be transferred to the country.

Mr Dini warned Germany that its attitude on the Ocalan issue "does not conform" with the fact it had issued warrants for the arrest of the PKK leader. "If a country has issued an arrest warrant and then does not ask for extradition, there is a risk that no state will arrest suspects for fear that it might end up having to keep them within its borders," he said in an interview with the Milan daily, Corriere Della Sera.

Mr Dini referred to the decision by Britain's House of Lords to clear the way for extradition of General Augusto Pinochet, the former Chilean dictator, to Spain, following an extradition request. "That is how the system should work," he said.

Mr Dini's latest published remarks were seen as unnecessarily inflammatory in Bonn where the government was already irritated by apparent changes in Italy's position over Mr Ocalan. Germany thought Italy would use the PKK leader's arrest as an opportunity for a wide-ranging approach to the Kurdish problem, but was taken aback by Mr Dini's later assertion that Mr Ocalan had been detained because of the German arrest warrant.

But Bonn has been careful to leave itself room to manoeuvre and has not ruled out re-activating its extradition request.

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G7 discusses plan to merge IMF and World Bank bodies

By Robert Chote, Economics Editor

The ministerial committees overseeing the International Monetary Fund and the World Bank could be merged as part of international efforts to reform the global financial system.

Officials from the Group of Seven leading industrial countries are discussing proposals to combine the IMF's "interim" committee with the "development" committee that looks at work by the IMF and multilateral development banks in poorer nations.

Pressure to reform the political structures of the Bretton Woods institutions has been intense in the wake of the financial crises in Asia and Russia.

The IMF has been criticised for a lack of accountability and the World Bank and the Fund have sometimes failed to collaborate effectively in crisis situations.

Michel Camdessus, the IMF managing director, has responded with a proposal to strengthen the interim committee – which has an influential but advisory role – by creating the formal policymaking "council" envisaged in the IMF's articles of agreement. This has French backing.

Other officials are worried that placing an enhanced interim committee at the heart of the world's financial architecture would marginalise the World Bank and other bodies.

They fear that concentrating power in the hands of the finance ministers and central bankers who attend the committee would mean that too little attention is paid to structural and social issues and too much to economics.

Merging the committees would be one way round this, with sub-committees meeting to discuss particular issues with the relevant ministers and officials.

The interim and development committees both have 24 members representing the wider membership of the IMF and World Bank in different countries. The committees meet twice a year on successive days, normally in Washington.

Mr Camdessus has not yet told officials whether he would be prepared to back the merger idea. He might instead propose that the World Bank should be represented at the interim committee or council.

The US is worried that the existing constituency structures in the interim and development committees give too great a voice to Europe and too little to important emerging market nations. For this reason it created the ad hoc Group of 22 "systemically significant economies", which has since expanded to 27 as smaller European nations have demanded representation.

WORLD MARKETS

STOCK MARKET INDICES		
Europe and Far East		
CAC40	3915.53	(+85.59)
DAX	5061.53	(+107.25)
FTSE 100	5827.9	(+72.6)
Nikkei	15,207.77	(+134.30)
OTHER RATES		
UK: 3-mo interbank	6¾%	(same)
UK: 10 yr Gilt	133.3456	(133.4258)
France: 10 yr OAT	135.17	(135.19)
Germany: 10 yr Bund	105.69	(105.71)
Japan: 10 yr JGB	109.51	(109.43)
NORTH SEA OIL (Argus)		
Brent Dated	$10.73	

GOLD		
London:	$296.55	(296.45)
EXCHANGE RATES		
Sterling:		
$	1.6611	(1.6620)
DM	2.8298	(2.8331)
FFr	9.4862	(9.4958)
SFr	2.3395	(2.3411)
Y	203.452	(202.842)
Y		121.91
Tokyo close		
New York markets closed		

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Brussels sets official euro rate timetable

By George Graham, Banking Editor

The full set of official conversion rates for the euro will be published in Brussels at 1pm on December 31, the European Commission said yesterday.

Yves-Thibault de Silguy, commissioner responsible for monetary and financial affairs, said these rates would be formally adopted by the Council of Ministers later in the afternoon of December 31, and published in the official journal at about 6pm.

Banks and securities houses have been waiting anxiously to find out when exactly the official conversion rates would be published. Publication of the Commission's proposal is expected to be the starting pistol for a frantic exercise to convert cash balances, redenominate bond and derivative portfolios and adjust computer systems in time for the start of trading in the new European currency on Monday January 4.

"You can start programming in the rates then, for all practical purposes," said one London banker.

However, full legal certainty about the conversion rates will not be assured until after the proposal has been signed by Rudolf Edlinger, Austrian finance minister and current chairman of the council of ministers.

The process has been accelerated by the calling of an exceptional meeting of finance ministers in Brussels on December 31, allowing on-the-spot approval rather than a more protracted process of referring to each national capital.

Bilateral exchange rates between the 11 currencies participating in the first wave of monetary union were fixed in May this year. However, the Maastricht treaty stipulates that 1 euro must equal 1 ecu.

The ecu comprises a basket of European currencies, including three which will not be joining monetary union – the British pound, the Greek drachma and the Danish krone – and these are still floating. As a result, the final conversion rates between participating currencies and the euro cannot be fixed until the last official fixing for the ecu on December 31.

Banks have been keen to get the official rates as soon as possible, so they can start work on the conversion process.

In a speech in London, Mr de Silguy said the practical preparations for ensuring a smooth launch for the euro were now in place.

"The launch of the euro is not a leap in the dark. The details of the transition have been meticulously planned. All the actors know what will happen when."

TURKISH POLITICS PRESIDENT MAY BYPASS SQUABBLING PARTY LEADERS AND TURN TO A RANK-AND-FILE MEMBER OF PARLIAMENT TO LEAD A COALITION

Demirel steps up drive for new government

By Leyla Boulton in Istanbul

Süleyman Demirel, Turkish president, last night met two of the country's top party leaders as he stepped up his search for a new prime minister after the forced resignation on corruption charges of Mesut Yilmaz.

Mr Demirel met the conservative former prime minister, Tansu Çiller, and leftist leader Bülent Ecevit. He was due to meet others of 10 party heads today.

"Now let's see what garment we can make from this cloth," Mr Demirel was quoted saying, acknowledging how difficult it could prove to bring the country's fractious parties into a coalition government until elections to be held by April 18.

The 74-year-old president and veteran deal maker known as *Baba*, or father, has suggested he might pick a rank and file parliamentarian as prime minister, in an apparent move to break a deadlock among squabbling party leaders.

Mr Yilmaz lost a vote of confidence on Wednesday but continues to serve as prime minister until a caretaker administration is appointed. Yesterday he indicated a softening in Ankara's position toward Italy in the bitter diplomatic row between the two countries over Abdullah Ocalan, leader of the Kurdish Workers' party (PKK).

Mr Yilmaz played down suggestions of an official Turkish economic boycott against Italy, but said the government was powerless to stop spontaneous decisions by the public to shun Italian goods. Jacques Santer, president of the European Commission, had on Tuesday warned that the EU would retaliate against any boycott of Italian goods sponsored by the Turkish government.

Turkish newspapers yesterday urged Italy to solve the dispute over Mr Ocalan by following the example of Britain's House of Lords, which on Wednesday cleared the way for the possible extradition and trial of Augusto Pinochet, the former Chilean dictator, accused of crimes against humanity.

"The Pinochet case could prove a positive precedent for Turkey in the Abdullah Ocalan case," wrote a commentator for the conservative Milliyet.

"The Italian government keeps 'Apo', the murderer of 30,000 people, whereas Pinochet is wanted because he is thought to be responsible for the death of one man," said the right of centre Sabah, under a headline that read: "Italy Take This as an Example".

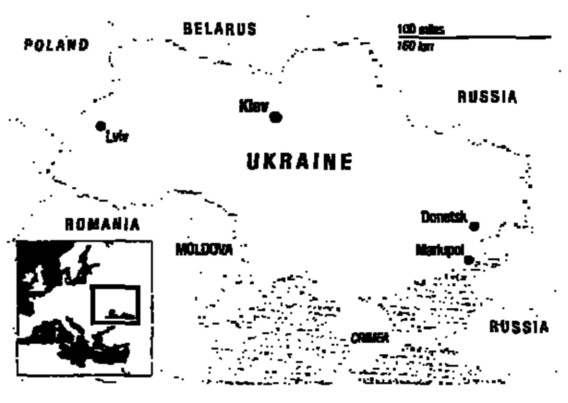
Mr Pinochet has been charged with responsibility for a campaign of repression in which 4,000 people were killed or disappeared.

The mass circulation Hurriyet accused France of "double standards" for backing Italy in the Ocalan row after it extradited Jose Javier Zabaleta, a leader of the Basque separatist group ETA, to Spain. In an article headlined "Extradition for ETA and Human Rights for the PKK" it noted that France gave support to Italy in the case of Mr Ocalan, whom it described as "the murderer of 30,000 people" while Eta was "responsible for the deaths of 800 people".

The foreign ministry in Ankara, however, declined to make any *parallels* between the Ocalan affair and the former Chilean dictator. "We have our own case," a spokesman said.

Mixed messages as Ukrainians see east-west divide start to deepen

Presidential contenders must battle a political and cultural split as well as the economic crisis, writes **Charles Clover**



One day back in 1996, the mayor of Mariupol, a city in eastern Ukraine, received a fax from his friend, the mayor of the western Ukrainian city of Lviv. "Respected Mykhailo Oleksandrovych!" it said, in Ukrainian. "We invite you to *visit the city of Lviv along* with your *druzhyna*."

So far so good. But then came the hard part: what does *druzhyna* mean? In Ukrainian, the native tongue of the Lviv mayor, which is spoken mainly in the west of the country, *druzhyna* means "wife". But in Russian, the language of east Ukraine, and the native tongue of the Mariupol mayor, *druzhino* means "troops" or "band of warriors".

Without hesitation, the *mayor of Mariupol chartered* a jet, gathered his *druzhyna* – an entourage of 30 officials and 10 journalists – and flew to Lviv.

The misunderstanding was resolved amicably. The Lviv mayor, waiting patiently on the tarmac with his wife to greet the first couple of Mariupol, hospitably put up all his guests. But the incident points to a more fundamental cultural divide between the east and west which is becoming more acute as economic crisis and presidential *elections tug at the loyalties* of Ukraine's 50m population.

Seven years after Ukraine's independence from the Soviet Union, east and west Ukraine continue to be divided along linguistic and religious lines. The eastern half of the country, formerly part of the Russian empire going back to 1654, is predominantly Russian-*speaking and Orthodox*, while the western half, part of which was in Poland, and part in the Austro-Hungarian empire, is Ukrainian speaking and largely Catholic.

This split became a political one in the 1994 presidential elections, when the west voted as a bloc for Leonid Kravchuk, who lost, while the east, far outnumbering the west, voted for Leonid Kuchma, who won. The lesson has not been lost on contenders preparing for elec*tions in October 1999:* winning in the east is the key to the presidency, and campaigns are already under way.

"Like in 1994, the east will be decisive in the elections. One could say that the east will choose the president," said Vladimir Rybak, mayor of Donetsk, the biggest city in the east.

You don't need to tell that to Natalya Misherskaya, a journalist at Ukraine's state television channel, UT-1. Earlier this month, when *President Kuchma visited* Lviv, he made an address praising Symon Petliura, a hero for western Ukrainians who struggled against the Bolsheviks in 1917.

But Petliura is a hero only in the west, while in the east he is reviled as a traitor and mass murderer. Ms Misherskaya, not realising that Mr Kuchma's praise for Petliura was intended only for a local audience, broadcast the president's comments throughout Ukraine.

Administration officials immediately called up the TV station to set them straight: there is one message for the east, and one message for the west. And the incident may have been among the reasons why the director of the state television company was sacked a week later. "I just want to forget about that," said Ms Misherskaya, shuddering. "I became a playing piece in some dirty game."

Today, if Mr Kuchma chooses to run again, he will *be under pressure in the east* to make good on a 1994 campaign promise to make Russian a second official language in Ukraine, one of the reasons why he won so heavily there. He has so far failed to deliver on this promise.

For easterners, the issue of language is more than just culture and heritage. Entrance exams for universities and the civil service are written in Ukrainian, and not Russian, giving Ukrain*ians in the west a profes*sional advantage.

But making Russian the country's second official language would risk alienating the west. "Kuchma is stuck. He cannot do one side a favour without offending the other side. I don't envy him," said Mr Rybak.

The 1993-94 presidential election campaigns were accompanied by such east-west political convulsions that the CIA even predicted that Ukraine would split in two. During this period, the *Crimean peninsula even* attempted to secede from Ukraine and join Russia.

Heavy weather in Ukraine: a man clears snow away from the highly decorated wall of a monastery in Kiev — Reuters

So far this year, the Russian cultural centre in Lviv has been attacked twice by arsonists, while on November 6, a leftwing deputy from the eastern Donbass region *unfurled a Soviet flag in* Ukraine's parliament, provoking the anger of nationalist parliamentarians from the west.

The latter incident shows what it might take for a presidential candidate to be popular in the east. While eastern regions voted overwhelmingly for independence from the Soviet Union in 1991, they did so for economic reasons.

After seven years of independence, Ukraine's gross domestic product has fallen *by two thirds, and the aver*age monthly wage is $50. The 40 per cent devaluation of the hryvnia in August and September symbolised for many easterners the violation of the independence social contract. Many would like to see Ukraine re-unify *with Russia*.

The political climate is likely to become emotionally charged in the months to come. According to a November 19 poll in the Kiev daily newspaper Dyen, asking readers whom they would vote for, the winner was Peter Simonyenko, head of Ukraine's Communist party, who favours including Ukraine in "an equal brotherhood of states" with Russia and Belarus.

"Already many mainstream politicians are com*ing around to this view*, which, mind you, we have held since 1993," he said.

Probe into alleged board cartel

By Emma Tucker in Brussels and Maggie Urry in London

The European Commission has launched an investigation into an alleged price-fixing cartel in the plasterboard industry by raiding the offices of three key European producers.

Officials confirmed that on Wednesday inspectors searched the premises of Knauf in Germany, France's Lafarge and BPB's head office in the UK, as well as its offices in Germany, France and Italy. The companies could face substantial fines if the Commission uncovers evidence of price-fixing or market sharing.

The BPB board yesterday said it was "co-operating *fully" with the probe into* plasterboard and other gypsum based construction products. This is the second time the company has been investigated by the Commission. In the late 1980s it was fined Ecu3m ($3.5m) for abusing its dominant position in the UK market.

Yesterday BPB shares dropped 42p, to close at 217p.

Lafarge was fined Ecu22.9m in 1994 for its role in a market sharing cement cartel involving 33 European cement producers.

The raids underline the Commission's determination to act on alleged market-rigging agreements among European companies which seriously undermine competition within the EU.

So far this year it has hit companies from the shipping, sugar and pre-insulated pipes sector with punitive fines for being party to restrictive deals. Cartels in *cement, cartonboard, steel* beams and soda ash have also been uncovered by Brussels.

The inquiry into the sector is likely to take several months, if not years, to complete. Any fines set would be based on the length and seriousness of the alleged cartel. Co-operation with the Commission could mean any fines being substantially reduced.

BPB's share of the UK market has dropped from 96 per cent in the 1970s to 65 per cent, after it was forced to open up to outsiders by UK competition authorities and following the earlier Commission probe.

● The Commission has dropped a series of inquiries into mobile telephone charges across the European Union after fixed operators in several member states cut their prices.

The probes were prompted in July following suspicions that some telecoms operators were charging "excessive and discriminatory" prices on calls between fixed and mobile telephones.

Italy has since told the Commission that it now charges the same price to mobile and *fixed operators* for the termination of calls in its public telecommunications network. This has led to a 40 per cent reduction in the charges paid by mobile operators.

Cyprus under pressure over missile deployment

By David Buchan and Kerin Hope in Athens

President Glafcos Clerides of Cyprus will come under pressure today in Athens to abandon his plan for deploying Russian S-300 air defence missiles to protect the Greek Cypriot half of the island.

With the S-300s now due to be delivered in January after two postponements, there is a growing sense of urgency among Greek officials, who see Mr Clerides's visit as a last-ditch opportunity to avert a confrontation with Turkey over the missiles.

Costas Simitis, the Greek prime minister, supported the S-300 deal when it was agreed in 1996. But he has since backed off because of fears that Mr Clerides's brinkmanship could stall accession talks aimed at securing Cyprus's membership of the EU in the next wave of enlargement.

"Cyprus's accession is our top priority," said Yannos Kranidiotis, Greek deputy foreign minister. "We believe *that EU membership will* help the solution of the Cyprus problem."

But as Greece comes closer to realising its hopes of joining the European single currency, the Socialists are increasingly anxious to avoid a confrontation over Cyprus.

France has repeatedly raised concerns about continuing accession talks with the Greek Cypriots so long as a political settlement with the Turkish Cypriots *remains out of reach*. When the enlargement negotiations kicked off earlier this month, Germany, the Netherlands and Italy also voiced doubts about Cyprus's accession.

To take the heat off Mr Clerides, Greece is willing to "borrow" the Russian missiles and put them on the southern island of Crete. But it is not clear whether the S-300s would be installed as part of a new Greek air defence system or left in *storage at a Greek military* base.

The Greeks are also backing efforts to get UN-sponsored inter-communal talks re-started as a way of avoiding political humiliation for Mr Clerides, who has threatened to resign rather than cancel the missile purchase.

Mr Clerides intended the missile order to become a bargaining chip which would nudge Rauf Denktash, the Turkish Cypriot leader, into *resuming talks on reuniting* Cyprus.

But Mr Denktash not only rejects Turkish Cypriot participation in the accession talks unless Turkey is accepted as a candidate for EU membership. He also refuses to resume talks with Mr Clerides unless his republic in the north of the island is granted recognition.

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GROWTH EXPECTATIONS FRANCE AND NETHERLANDS SEE DOWNTURN

Economies suffer slowdown

By Robert Graham in Paris, David White in Madrid and Gordon Cramb in Amsterdam

The international financial crisis has taken its toll on several European economies during the third quarter, triggering a slowdown in economic growth in France and the Netherlands, and a fall in exports in Spain.

The data are consistent with recent survey evidence, pointing to a slowdown in growth expectations. The figures *may also add to pres*sure on the new European Central Bank to cut interest rates early next year.

Insee, France's official statistics agency, yesterday reported a decline in third-quarter French economic growth to 0.5 per cent. The decline was sharper than generally expected by independent economic analysts.

Investments fell back noticeably, growing at only 0.7 per cent compared with 2.5 per cent and 1.6 per cent in the first and second quarters respectively.

The slowdown was all the *more notable because Insee* yesterday also revised upwards second quarter growth to 0.8 per cent. The French economy has been witnessing the most robust growth of the leading European economies this year and officials said yesterday France still looked set to achieve the 3 per cent target for the year. However, yesterday's figures cast a cloud over the government's continued faith in achieving 2.7 per cent growth next year – a projection on which the 1998 budget is based.

The Dutch economy grew at an annualised rate of 3.4 per cent during the third quarter, towards the lower end of economists' expectations and down sharply from *4.3 per cent achieved in the* first half of the year.

The preliminary figure released yesterday for gross domestic product lends substance to fears that a tail-off in growth could imperil the basis on which the government's budgetary plans are built. The Central Planning Bureau, The Hague's chief economic forecaster, warned last week that GDP next year could rise by only 2.25 per cent.

This matches the growth rate in the "cautious" scenario set out by Gerrit Zalm, finance minister, in his September budget. Any weakening beyond that point would leave him a spending hole to fill. Growth for 1999 had previously been forecast at 3 per cent.

Rodrigo Rato, the Spanish finance minister, warned that the impact of the international financial crisis was already visible in a slowdown of both exports and imports. Spanish exports in the first nine months of the year rose 11.1 per cent while imports grew 13.6 per cent.

Schröder warns on EU enlargement

By Peter Norman in Brussels

Gerhard Schröder, on his first visit to Brussels since his election as German chancellor in September, warned yesterday against setting deadlines for eastward enlargement of the European Union.

Enlargement should have the "character of a process" so that "we cannot say exactly when it should be completed", the chancellor said after meeting Jacques Santer, the EU Commission president.

Mr Schröder's cautious remarks could increase concern about delays to EU enlargement among the five candidate countries from eastern and central Europe and Cyprus, which began entry negotiations earlier this month. Poland, the Czech Republic, Hungary, Estonia and Slovenia are working towards a 2003 date for membership of the EU.

But the chancellor also made clear that he hoped the Agenda 2000 programme for reforming the EU's budget, agriculture and regional policies would be brought to a successful conclusion in the six-month German presidency starting on January 1.

Agreeing Agenda 2000 was Germany's main goal in its presidency and one of the "objective conditions" for meeting the entry wishes of the applicant countries as quickly as possible, he said.

Mr Schröder underlined that the idea of an ever-growing integration of the European Union was one that united all German politicians. He stressed that his vision of a united Europe did not stop at Germany's eastern border.

But he was careful to strike a more pragmatic note than Helmut Kohl, his predecessor as chancellor, and Joschka Fischer, Germany's new foreign minister from the Green party.

In a midweek newspaper interview, Mr Fischer mused about the theoretical desirability of an EU equipped with a constitution and some of the attributes of a country under international law.

Although he took pains to charm his audience, there were no signs of such idealism on Mr Schröder's part yesterday. Instead he noted that economic and financial constraints made it more difficult to harbour the vision of a united Europe than in Mr Kohl's heyday.

The chancellor made clear Germany would not be the paymaster of European integration. Nor would he "overload" the German presidency by striving for a reform of EU institutions in the first half of next year.

Mr Fischer also recognised the limits to European integration in an interview with the Frankfurter Rundschau newspaper. Europe would "never be a homogenous nation state," he conceded.

Schröder, German chancellor, showing his pragmatic side in Brussels yesterday AP

Computer bomb tax breaks on offer

By Samer Iskandar in Paris

The French government is to offer tax breaks to companies that spend on technology, as part of a campaign to raise awareness of the so-called "millennium bug" – the inability of old computer systems to cope with the date change from 1999 to 2000.

Tens of millions of francs will be spent on the campaign, partly inspired by earlier efforts to promote the single currency – the euro.

Companies will be allowed to accelerate the amortisation of their investments in software, by writing them off against corporation tax in the year they are purchased, instead of over a period of three to five years.

"This has been done for the launch of the euro, it should work for the year 2000 [computer bug]," said Dominique Strauss-Kahn, economics finance and industry minister.

Earlier the government launched a TV advertising campaign on the euro and mailed some 30m information booklets. Software investment linked to the euro was also granted favourable tax treatment.

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Switzerland acts to defend its patch against the euro banks

To help their country survive as a financial centre the Swiss have opened a euro clearing bank in Frankfurt, reports **William Hall**

€ **Living with the euro**

Surrounded by countries soon to have a common currency it does not share, Switzerland has done what it is best at: opened a bank in the heart of the new financial system, Frankfurt.

To survive as a financial centre and not be marginalised by the arrival next year of the euro, the single currency of 11 European nations, Switzerland has realised it must maintain its own network of payment links with euro-zone countries.

A few weeks ago the German banking authorities granted a permit to conduct banking operations to the Swiss Euro Clearing Bank (SECB), which has its headquarters in Frankfurt's Solmstrasse and will perform essentially the same duties as the Swiss National Bank does in the Swiss domestic payments system.

However, the SECB, unlike the SNB, is owned by the Swiss banks. UBS and Credit Suisse each have a 30 per cent stake, and Telekurs, a Swiss bank controlled operator of the Swiss interbank clearing (SIC) system, owns the remaining 40 per cent. Swiss banks have to be able to process all types of euro transfers ranging from simple payments to securities transactions, direct debiting and exchange of financial data for regular payment of bills in euros.

The decision to open a private central bank in Frankfurt has caused some surprise. Big US banks such as Chase Manhattan and Citibank have not felt the need to have an American euro clearing bank to handle their euro payments traffic, so why have UBS and Credit Suisse, the big two Swiss banks, felt it necessary to set up the Swiss Euro Clearing Bank in Frankfurt?

Both banks already have a substantial presence in the euro-zone. Like Chase and Citibank, their operations in countries such as France and Germany will ensure that they are connected to the local payment systems which in turn are plugged into Target, the real-time gross settlement system connecting EU central banks.

However, the two big Swiss banks are more concerned about the impact of the euro on their domestic payments traffic inside Switzerland and the domestic banking system as a whole, rather than their ability to handle cross-border euro transactions cheaply and efficiently. They have watched what happened in Canada, where the US dollar has become an important currency for domestic Canadian payments.

Canadian banks have lost much of this business to US banks and Swiss banks are nervous that banks in neighbouring countries will muscle in on their domestic Swiss bank payments traffic, which is running at 480,000 transactions a day worth close to SFr200bn ($142bn). In addition, the Swiss Post Office handles another 1.7m smaller transactions a day.

In Switzerland domestic payment transactions are handled primarily by the Swiss National Bank, the commercial banks and the postal system. Since 1987 the SNB – together with Telekurs – has operated the electronic Swiss interbank clearing system. It is one of the world's biggest real-time gross settlement systems and is also linked to the Secom settlements system of Sega, the Swiss Securities Clearing Corporation, which ensures payments and delivery occur simultaneously and avoid settlement risks.

To handle electronic payments in euros, the Swiss banks have set up euroSIC, which replicates the existing domestic SIC. The system checks whether a bank has sufficient funds to cover the payment, only approving it when this is the case. Participating banks will have to maintain clearing accounts with the new SECB. In addition to guaranteeing connections to other European clearing systems, such as Germany's Elektronische Abrechnung Frankfurt, the SECB will also be responsible for managing the liquidity which is essential for a smoothly functioning clearing system.

The nightmare is that they lose a substantial share of domestic euro traffic – and then join the EU

As a rule euroSIC will carry out payments only if there is enough money in the account to cover the payment. But the SECB will differ from the SNB in that it will offer intra-day overdrafts to participating banks and brokers. As security, participants must pledge securities eligible for rediscount with the central bank.

The intention is that the new system will allow euro transactions in Switzerland to be processed as efficiently as Swiss Franc payments.

Jörg Auer, the UBS executive who chairs the SECB, describes the new bank as a "common infrastructure project for the Swiss financial centre". Although Swiss banks are increasingly competing with each other, they still join forces when faced with a common problem. A total of 136 banks and financial institutes have signed up to use the bank and more will be allowed to join from April 1999.

However, the decision to allow Postfinance, the Swiss Post Office rival to the Swiss banks' domestic payments system, to join euroSIC and the SECB is the surest sign that the Swiss banks are determined to prevent banks from neighbouring countries muscling in on their domestic payments traffic. The Swiss retail banks may regard Postfinance as their number one competitor domestically, but with the arrival of the euro their biggest challenge will soon be the non-Swiss banks touting for payments traffic from the increasing amount of Swiss-based euro traffic.

The nightmare Swiss banks are trying to avoid is that they lose a substantial share of their euro traffic to non-Swiss banks and then – 10 years down the line – Switzerland finally decides to join the EU and the common currency.

NEWS DIGEST

TRADE HIT BY FINANCIAL CRISES

Drop in German exports to Asia and Russia

German exports to Asia and Russia dropped sharply in August due to the financial crises in those regions, the federal statistics office reported yesterday. Exports to Asean member states stood at DM1.3bn ($760m) in August, a 33.5 per cent drop on the same month in 1997. Exports to Russia declined 17.6 per cent year-on-year in August to DM1.2bn.

In the first eight months exports to Asean countries accounted for 1.9 per cent of total German exports of DM632.2bn. This is down from 2.7 per cent in the same period in 1997. Imports from Asean countries remained roughly stable, climbing just 0.1 per cent, to 2.8 per cent. Total exports were up 11.2 per cent in the first eight months while imports rose 10.6 per cent.

The slowdown in trade with Asia and Russia has played a significant part in the overall slowdown in German exports. Earlier this month the statistics office blamed economic problems in south-east Asia, Russia and South America for a 2.9 per cent drop in exports in September compared with the same month a year before. This was the first fall in exports for two years.
Frederick Stüdemann, Bonn

RAILWAY UNIONS

French train drivers strike

French train drivers and ticket collectors last night began a highly disruptive 36-hour rail strike to press the management of the SNCF, the national operator, to hire more staff.

The industrial action followed a one-day strike on Monday as part of a co-ordinated move by European rail unions to protest against the European Commission's plans for liberalisation. The French unions have threatened to prolong their action but at this stage are thought unlikely to go for a trial of strength with the SNCF, which is under pressure from the government to pay a more realistic price for the use of the rail track.

The management is also about to begin discussions on how to introduce the 35-hour week. According to the unions this could involve the hiring of up to 16,000 more people for the 160,000 strong workforce. They held back on strike action during the World Cup football competition in June but warned of trouble ahead over tight staffing.
Robert Graham, Paris

LATVIAN POLITICS

Government wins backing

Latvia's incoming minority government was yesterday voted into power with a solid margin when it received the backing of the opposition Social Democratic party. The 100-seat parliament backed the rightwing coalition government led by Vilis Kristopans with 59 votes, out of 83 votes cast.

The new government has said it will pursue the policies of its predecessor, stressing harmonisation of laws with the EU, privatisation, and conservative fiscal policies, including a balanced budget. However, it is not clear whether the coalition will be able to survive in the long term. **Reuters, Riga**

PINOCHET RULING CHILE MAY SEEK GENERAL'S RELEASE ON COMPASSIONATE GROUNDS

Calm returns to Santiago

By Imogen Mark in Santiago, David White in Madrid and John Mason in London

Santiago was surprisingly quiet yesterday as demonstrations in the Chilean capital over the fate of General Augusto Pinochet, the country's former dictator, dissipated as fast as they had appeared.

More than 100 people had been arrested in skirmishes with the police in pro- and anti-Pinochet demonstrations on Wednesday evening, after the House of Lords, the highest British court, cleared the way for his possible extradition to Spain to stand trial for alleged crimes against humanity. But after the first shock at the unexpected ruling – which overturned an earlier court judgment – the government and rightwing opposition parties in Chile settled down to plan how they could secure the general's release on compassionate grounds.

As political and diplomatic argument replaced street protest yesterday, the Chilean foreign minister, José Miguel Insulza, was due to leave for London for talks with his British counterpart, Robin Cook.

Meanwhile, President Eduardo Frei reacted angrily to criticism by the rightwing parties, who said the episode was another instance of his government's failure in foreign policy.

Gen Pinochet will have to make his first public appearance in court in London within the next two weeks. The hearing, originally set for next Wednesday, is expected to be deferred at the request of Jack Straw, the home secretary.

However, it is accepted by most observers, including his own aides, that Gen Pinochet will have to attend the hearing personally.

Unless he falls severely ill, he is expected to have to force his way through large crowds of waiting press and demonstrators. The tiny Bow Street court, in the heart of London's West End, usually deals with minor offences such as drunkenness, and has room for only six journalists and about 24 members of the public. The UK police presence at the court is expected to be intensive.

Chile's right wing is now demanding that Mr Frei send a high-level mission to intercede for Gen Pinochet. They want the government to provide legal assistance and take diplomatic measures, including breaking off relations with Britain and Spain if necessary.

Abel Matutes, Spain's foreign minister, said "fraternal" relations with Chile should not be affected by the case, and described Wednesday's ruling as "controversial". He said Chile's transition to democracy was an example for many countries.

The five British law lords ruled by a 3-2 majority that Gen Pinochet was not immune from prosecution as international law, developed since the second world war, meant heads of state could be tried for crimes such as torture and genocide.

Spain is seeking to try Gen Pinochet on charges of murder, torture and hostage-taking, allegedly committed after he seized power in 1973.

Straw under pressure to extradite Pinochet

By Andrew Parker, Political Correspondent

Britain should allow General Augusto Pinochet to return to Chile on the grounds that it would not expect other countries to interfere in Northern Ireland's fragile political settlement, the opposition Conservative party said yesterday.

Michael Howard, Conservative spokesman on foreign affairs, argued that the UK government would not expect other states to seek the arrest and extradition of terrorists released as part of the Northern Ireland peace process.

Mr Howard, home secretary in the last government, said the 1989 extradition act gave Jack Straw, his successor, sufficient "discretion" to reject Spain's request to extradite Gen Pinochet on these grounds. However, the Home Office disputed Mr Howard's assertion.

The Foreign Office admitted last night that Wednesday's ruling by the House of Lords that Gen Pinochet was not immune from prosecution had damaged Anglo-Chilean relations.

The Home Office said Mr Straw had asked for an extra seven days in which to decide whether to sanction extradition proceedings against Gen Pinochet.

London's Bow Street magistrates' court, which would hear the proceedings, yesterday gave no public indication of whether it would accept Mr Straw's request, but it is believed a formal application will be made and accepted shortly.

Aides to Mr Straw insisted he would take his decision in a quasi-judicial capacity, but the home secretary is under strong political pressure from members of parliament in the ruling Labour party to extradite Gen Pinochet to Spain.

The case for bringing Gen Pinochet before a Spanish court on charges of genocide and torture has, for once, united the parliamentary Labour party.

"If Straw was to say 'OK, Pinochet is old, let him go home to Chile', there would be a lot of raised eyebrows on all the wrong faces," said a government member. "Even in New Labour there is not a lot of support for rightwing fascist tyrants."

Ken Livingstone, a leftwing member of Labour's ruling national executive committee, pointed out that his party had won the 1997 general election on a pledge to be "tough on crime". "You could not have a government supposed to be tough on crime releasing a mass murderer and torturer."

But Michael Portillo, another minister in the former Tory government, called Gen Pinochet's arrest "indefensible". "I think we are intervening in an indefensible way in the internal affairs of a sovereign nation and a democracy," he said.

Mr Straw has considered extradition requests with acute political ramifications before.

Straw: wants more time

In March he was accused of appeasing Sinn Féin, the Irish nationalist party, after rejecting a request to extradite Roisin McAliskey to Germany on terrorist bombing charges.

Mr Straw said his decision was based on compassionate grounds because of the poor health of Ms McAliskey, an Irish republican.

However, Donald Anderson, a senior Labour member of parliament, said of Gen Pinochet: "If there is compassion to be exercised it should be exercised on behalf of the many victims of the Chilean regime and their families."

Reprisals feared by foreign businesses

By Imogen Mark in Santiago and Tom Burns in Madrid

General Augusto Pinochet's supporters are not just confined to the Chilean right wing. Yesterday the British-Chilean Chamber of Commerce said it had asked the British government to allow the general to return to Chile as soon as possible.

British interests in Chile – including Shell, Lever, Reckitt & Colman and Blue Circle – are long-established and often run by Anglo-Chileans who feel more Chilean than British. "Spanish and British businessmen often understand more about Chile and Chilean politics than their politicians," a business community spokesman said.

But feelings are running high. Officials in Madrid believe Spain's state-owned Bazán shipyard is now unlikely to secure an order to build two frigates for the Chilean navy, and fear an existing contract to supply a submarine could be revoked.

The submarine contract was signed in July despite tensions arising from Spanish Judge Baltasar Garzón's criminal investigation into the general. Negotiations to build the frigates were put on hold after Judge Garzón's extradition request led to Gen Pinochet's arrest in London last month.

Meanwhile senior executives of big Spanish companies with strong positions in Chile have been privately expressing fears that their business activities could be affected by anti-Spanish feeling.

Spanish investment in Chile last year, which ranged from power sector takeovers to bank acquisitions and large construction contracts, totalled Pta277bn ($1.9bn) and accounted for 14 per cent of Spain's total foreign direct investment.

An anti-Madrid backlash could affect attempts by Telefónica, which controls Chile's CTC, to bend the regulatory framework in its favour and also hit Endesa, the electricity giant, which faces a number of legal suits over its purchase of Enersis, the Chilean electricity generator.

There are already some scars on both sides. When Endesa bought its controlling stake in Enersis last year, the shareholder battle aroused unexpectedly strong anti-Spanish feelings among many Chilean businessmen. CTC's top executives are Spanish and occasionally clash with the style of the local business culture.

The banking groups Santander, Bilbao Vizcaya (BBV) and CentralHispano (BCH) fear boycotts by Chilean clients; and big building companies, including Dragados, FCC and Ferrovial, are concerned that further contracts could be curtailed.

However, for the moment Chilean business leaders, though indignant, have dismissed fears that trade relations with Britain and Spain could be affected.

The ruling "affects our dignity as a nation", said the Confederation of Production and Trade, which represents the main business sectors, but it then joined the call of rightwing opposition political leaders for Chileans to keep calm and support the government in its efforts to secure the general's return.

The confederation has also vigorously rejected some of the initial calls from wilder rightwingers for consumer boycotts of Spanish or British products – whisky is a favourite example.

In public, none of the British or Spanish-owned companies will comment on whether they have been subject to acts of hostility or boycott. Endesa executives had continued to travel to Chile for monthly board meetings, a spokesman confirmed, and had indeed been in Santiago when the ruling came on Wednesday. Banco Santander said there had been minor incidents – pro-Pinochet slogans scrawled on the walls of one or two branches in the regions, a handful of customers closing their accounts.

What Chilean business hopes will quell any action is the realisation that the country's interests and citizens have more to lose from any serious reprisals against Britain and Spain.

The Spanish businesses are involved in publicly traded companies, and ones which have a heavy weighting in the small Santiago stock market. CTC, Enersis and its Endesa subsidiary account for 54 per cent of the IPSA, the main stock indicator. Any reprisals against these companies which affected their prices would have an impact on the Chilean private pension funds, heavily invested in these stocks.

An unstable political environment would also eventually affect Chile's country risk classification, deterring foreign investors who have until now seen Chile as a haven of stability in the region. And any interference with trade would hurt Chile's trade balance more than Spain's or Britain's. Chile's sales to these two markets last year accounted for 10 per cent of all exports.

Doctor faces suicide charges

By Nikki Tait in Detroit

Jack Kevorkian, long an advocate of assisted suicide for the terminally ill, got his wish this week when Michigan prosecutors charged him with first-degree murder for his role in ending the life of a dying man.

Whether local voters – and a Michigan jury – will welcome yet another courtroom battle over the retired pathologist's activities is much more debatable.

The televising on Sunday night of a videotape showing Dr Kevorkian's assistance in ending the life of Thomas Youk, a 52-year-old Michigan man in the advanced stages of Lou Gehrig's disease, left prosecutors with few options. It appeared to fly in the face of the state's new assisted suicide law, which makes this a felony punishable by up to five years in prison or a $10,000 fine. David Gorcyca, prosecutor for Oakland County, on the outskirts of Detroit, duly announced that Dr Kevorkian was being charged on three counts – first-degree murder, assisting a suicide, and delivery of a controlled substance.

Already, legal experts are warning that securing a verdict will be difficult and that the case could be won or lost on jury selection. Three previous attempts to prosecute Dr Kevorkian over five deaths have failed.

This time, prosecutors have the backing of the new law. But opinion polls still suggest that much of the local electorate either tolerates Dr Kevorkian's activity or would not rate it as murder, given its consensual nature.

We run them in: Mexico City police officers are led to buses after arrest in the corruption crackdown AP

Crunch time for crooked cops as Mexicans act against soaring crime

Corrupt officers are arrested as elections approach and prospective presidents see fighting crime wave as the key to their political future, reports **Henry Tricks**

Heavy steel girders have propped up the side of Mexico City's police headquarters since the 1985 earthquake, to try to save the building from toppling into the narrow downtown street on which it sits.

In his penthouse office, Alejandro Gertz, the newly appointed police chief, talks like a man perched in a very precarious spot. But when he refers to layers of rot beneath him, he is not speaking of the 11 floors of dilapidated office space under his feet.

He is talking about corrupt policemen, the rotten apples found at all levels of the 94,000-strong city police force. "They control the thieves who steal cars, the thieves who steal from people, the thieves who steal from stores," he says.

Mr Gertz, a 59-year-old lawyer and former university rector, has moved into one of the least enviable jobs in Mexican public service. Luckily, he is not alone. This week, he and his counterparts in the federal government launched a crackdown on crooked cops that they claim could be a turning point in the battle to break the back of the country's soaring crime problem.

Efforts to purge Mexico's notoriously corrupt police are nothing new, but the latest onslaught has one unprecedented factor in its favour – raw political ambition. Mr Gertz's boss, Cuauhtémoc Cárdenas, the mayor of Mexico City, is considered an almost sure bet to run for the presidency in 2000 if he can tackle the Herculean task of curbing crime in the capital.

One of his main potential rivals is responsible for fighting crime at a national level. Francisco Labastida Ochoa, interior minister, is tipped as a leading candidate to run for the ruling Institutional Revolutionary party (PRI). This week the two men gave the go-ahead for arrests of corrupt officers, signalling that they see successfully fighting crime as the key to their respective political futures.

"The race in 2000 will be resolved not in economic terms, but over who can best fight crime. Both men have made their political calculations and decided that it's the way to win votes, and they have to hurry," says Lucio Mendoza, a former federal intelligence officer who heads the IMECO institute, which studies organised crime.

Even Mr Gertz agrees: "Competition has got to be a good thing," he smiles.

Their competing efforts got off to, at best, a sticky start. On Monday more than 300 street-level policemen were seized by colleagues in Mexico City and three surrounding states, on charges ranging from robbery to murder. It was billed as a co-ordinated assault on criminality in various police forces, but hours later dozens were back on the beat after arrest warrants were found to be riddled with inaccuracies.

Nevertheless, interior ministry officials said 150 remained in custody, and they pledged to continue steps to jail corrupt officers rather than merely stripping them of their badges as was customary in the past.

The crackdown at federal and state level is accompanied by reforms that authorities say will remove other hurdles to successful policing. These include the creation of a national data bank to check that police in one state are not involved in crimes elsewhere, tougher police exams and a pledge to build 35,000 new prison cells.

Last week the government sent to Congress proposals for longer sentences, a tripling of the law enforcement budget, and the creation of a 10,000-strong national police force aimed at stopping crime before it happens.

Mr Mendoza believes such measures have a chance of success because they indicate an awareness that corrupt law enforcement is at the root of the problem, and that rising crime rates are not – as some claim – just a temporary spillover from Mexico's 1995 economic crisis.

Government officials are reluctant to give a single explanation for the sudden surge of crime since 1994, but Mr Mendoza's theory is that it stems from the erosion of the monolithic power of the PRI, which used to control almost all aspects of Mexico, including mafiosi inside and outside the police.

The problems range from cops on the street who take bribes because they are unable to write traffic tickets, to so-called "brotherhoods" of powerful police commanders heading kidnapping and car theft rings.

Jesús Murillo Karam, a deputy interior minister responsible for public security, likens the problem to that of the US in the 1920s, with the corrupting impact of liquor prohibition replaced by the spread of drug trafficking through Mexican society.

"It's a thankless job," says Enrique Grimaldo, a member of an élite Mexico City unit, as his patrol car crawls past a gang of drug-peddling youths whom he was powerless to arrest because they outnumbered him. "We are insulted all the time."

Public confidence in the police is at an all-time low and most incidents go unreported. According to Mori, the UK polling company which is working with Mr Cárdenas on public security, a 1995 study showed that 80 per cent of the capital's residents had no faith in the police system. Sentiment has not notably improved since.

Authorities such as Mr Gertz say they must have more public backing, but one of the big questions will be how much Mexicans are prepared to stomach tougher action by law enforcers. The effort to weed out corrupt officials in the upper echelons of the police could turn bloody, and reformers like him are in the line of fire.

'OUT OF REACH'

Projects la

Oil price fall

Zimbabwea

Relationships
stand the test

DRUGS 'OUT OF REACH' INTERNATIONAL AIDS VACCINE INITIATIVE PLANS OTHER RESEARCH

Projects launched into two Aids vaccines

By Clive Cookson, Science Editor, in London

Two projects to develop Aids vaccines for the poor countries that need them most were launched in London yesterday. One is a UK-Kenyan and the other a US South African collaboration; both are based on innovative scientific proposals.

They are the first of half a dozen vaccine development projects planned by the International Aids Vaccine Initiative, a non-profit organisation based in New York and funded by governments, charities and companies. IAVI has committed $9m to get the two projects started, though the total research and development cost is estimated at $500m over nine years.

The initiative is based on frustration at the failure of existing medical research bodies and the pharmaceutical industry to come up with a viable Aids vaccine.

Seth Berkley, IAVI president, said scientists believed a vaccine could prevent HIV infection, although there were many problems in developing one – notably the variability of the virus.

More than 30 candidate vaccines are already in various stages of research and early clinical testing. But, Dr Berkley said, "17 years after the Aids epidemic started, only one has moved into [large-scale] efficacy trials anywhere in the world". That trial started this summer in the US, using surface proteins from a strain of HIV that is common in north America and Europe but not in Africa or Asia; clear-cut results are not expected before 2002.

Almost 6m people a year are being infected with HIV – more than 90 per cent in Africa and Asia.

Aids specialists said yesterday the only way of bringing the epidemic under control in poor countries was in the short term to persuade people not to have unprotected sex and in the long run to develop a vaccine.

There was no point in trying to export unaffordable anti-HIV drug combinations, costing thousands of dollars a year per patient, to countries without the medical infrastructure to support them.

Omu Anzala of Nairobi University, who will be working on an IAVI vaccine project with Oxford University, said: "Drugs are totally out of reach for most of Africa."

The Nairobi-Oxford collaboration will produce a vaccine with two components designed to produce an immune response to HIV strains circulating in Kenya. One part consists of HIV genes and the other is a genetically engineered vaccinia virus.

The second partnership involves AlphaVax, a US biotechnology company, with the University of Cape Town. Its vaccine uses Venezuelan equine encephalitis virus, disabled for safety reasons and altered to make HIV proteins.

"These are two of the most promising new vaccine technologies in the world," said Jaap Goudsmit of Amsterdam University and chairman of the IAVI scientific committee.

"They are also far enough along in the development process that we should be able to test them quickly in humans."

Oil price fall hits Iraq food supplies

By Roula Khalaf in Baghdad

The collapse in oil prices has left Iraq's oil-for-food programme with a significant shortfall in revenues over the last six months, and distribution problems have prevented the full delivery of medical supplies to the Iraqi population, the office of the United Nations humanitarian co-ordinator in Baghdad said yesterday.

George Somerwill, spokesman for the UN office, said Iraq had pumped only $2.7bn worth of oil in the last 180 days. The UN earlier this year had allowed Iraq to sell up to $5.3bn of oil, in an enhanced phase of the programme.

With some funds going to pay for Gulf war reparations and the cost of running UN operations in Iraq, only $1.7bn was available to pay for humanitarian goods and oil spare parts. This was insufficient to meet the projected allocations in various sectors, Mr Somerwill said.

Distribution problems, he added, included a lack of sufficient refrigerated vehicles to enable efficient distribution of medical supplies.

Out of $425m of medicine bought for the centre and southern part of Iraq in the last six months, only $183m worth of drugs reached end users.

Despite the recent problems, Mr Somerwill said oil-for-food was beginning to stem the deterioration in malnutrition among Iraqi children. They have been the segment of the population most badly affected by UN sanctions imposed since 1990.

The rate of general malnutrition remains high, but it has stabilised in the past year among infants at 14.7 per cent, and among children under five at 25 per cent.

An additional reason for the shortfall in oil revenues in the past six months has been the delay in the arrival of spare parts to rehabilitate the oil industry. Earlier this year, the UN security council agreed to allow Iraq to allocate $300m of oil money for spare parts to increase production. But the first shipment of oil parts arrived on Wednesday.

Iraq, which has often feared that oil-for-food would become a substitute to lifting sanctions, has accepted this week's UN security council decision to implement another six-month phase of the programme. It had raised objections last week and requested that the current phase be extended by two months.

Mr Somerwill said the government was expected to submit a detailed plan for how the funds will be distributed on Saturday.

Saddam Hussein's picture adorns Doura refinery near Baghdad AP

Zimbabweans foresee return of exchange curbs

By Tony Hawkins in Harare

The Reserve Bank of Zimbabwe has called a meeting of top bankers next Monday to hear an "important" statement from the governor, Dr Leonard Tsumba, that is likely to mean the reimposition of some exchange controls.

In recent weeks a powerful political lobby has emerged for a Malaysian-style solution to the rapid depreciation of the Zimbabwe dollar, which has devalued 65 per cent during 1998. But because Zimbabwe already controls capital account flows, a more likely outcome is a return to a pegged exchange rate or, at least, a "Nigerian solution" of a two-tier exchange rate.

The latter would allow the government to reduce fuel prices because fuel imports would be brought into the country at a "subsidised" exchange rate, as well as cushioning the cost to the budget of imports of military hardware or foreign debt servicing.

Monday's meeting will coincide with a meeting of employers, trade unions and the government to discuss the economic crisis and specifically union demands for a 20 per cent across-the-board pay award. Measures to peg the exchange rate would be popular with the unions, though it is far from clear whether this and an agreement to pay the 20 per cent wage award would be enough for the Zimbabwe Congress of Trade Unions (ZCTU) to call off its series of one-day national strikes.

This week's stoppage, planned for Wednesday, was called off pending Monday's meeting, but at the same time unions have lengthened their list of demands that are becoming increasingly political.

Some analysts see the call for a new constitution, for privatisation of state-owned media, for the slimming of the government from 55 to 15 ministers as evidence that Morgan Tsvangirai, ZCTU secretary-general, who in the past has disclaimed all political ambitions, is moving towards seeking political office.

The government's economic difficulties deepened yesterday when the International Monetary Fund in effect ruled out further disbursements of the $176m 14-month standby loan this year.

Few analysts had expected the IMF to disburse the next tranche of the standby loan this year, but dealers said that the recent relative stability of the Zimbabwe dollar reflected market optimism that the $51m would be made available during December.

Confirmation that this is now most unlikely coincides with a new collapse of business confidence in the wake of last week's government decision to take over 841 commercial farms, pointing to a further sharp fall in the Zimbabwe dollar.

Against this background, the reimposition of some exchange controls next Monday – possibly including a freeze on profit and dividend remittances – would not come as a surprise.

NEWS DIGEST

KENYA FINANCIAL SERVICES

IMF team to overhaul supervision of banking

The International Monetary Fund is to appoint a team to overhaul the Kenyan central bank's supervision department, days after the finance ministry announced a $34m bailout for the troubled National Bank of Kenya. IMF officials yesterday said the team would lay down tough guidelines for on-site bank inspections, speed up supervision procedures, and introduce software to improve off-site analysis of bank portfolios.

The decision coincides with a substantial shake-up within Kenya's banking sector. Weeks of speculation about liquidity problems in the National Bank of Kenya culminated in a $25m run last week and a government bailout at the weekend, prompting fears about other large domestic commercial banks. Five smaller Kenyan banks have been placed under central bank management for failing to meet clearing house obligations, and minimum capital rules which will enter into force next year threaten several more. **Mark Turner, Nairobi**

NETANYAHU VISIT

Israeli snub angers Swiss

Switzerland yesterday reacted angrily to the last minute cancellation of a visit by Benjamin Netanyahu, the Israeli prime minister. Relations between the two former staunch allies have become strained following the arrest of a Mossad spy caught wiretapping in Berne, and the Israeli prime minister's public support for several of the most vociferous critics of Switzerland's wartime role in dealing with Nazi Germany. Switzerland had considered cancelling Mr Netanyahu's visit after he attended a ceremony in Jerusalem honouring Senator Alfonse D'Amato and three other Americans who helped force Swiss banks into a $1.25bn settlement related to their second world war activities.

However, Switzerland finally agreed to the visit only to have it cancelled at the last moment by Mr Netanyahu because of his more pressing domestic schedule. **William Hall, Zurich**

EGYPTIAN ENERGY

Gas filling stations plan

A leading Egyptian private sector gas distribution company plans to build a nationwide network of natural gas distribution centres for gas-powered vehicles. The Nile Valley Gas Company (NVGC), a joint venture between BG of the UK, Edison International of Italy, Orascom of Egypt and Middle East Gas and Energy Association, yesterday formed a subsidiary to distribute gas supply centres throughout Egypt's road network.

The new company, the Gas Powered Vehicles Company (GPVC), is intended to exploit Egypt's estimated 40,000bn cubic feet of offshore gas reserves. Egypt's government is intent upon maximising domestic gas use in order to increase earnings from oil exports. GPVC aims to use local distributors to establish a nationwide network. The partners in the company were last April awarded a contract to establish a domestic gas distribution network for residential and industrial consumers in northern and central Egypt. **Mark Huband, Cairo**

FLOW OF FUNDS ABROAD COMPANIES LOOK TO EDUCATION LEVELS AND ARE NOT PUT OFF BY TOP WAGES AND WORKERS' RIGHTS

High labour skills attract US investment

By Robert Taylor, Employment Editor

US foreign direct investment tends to flow to countries with established collective bargaining systems, widespread workers' rights, a skilled workforce and high labour costs rather than to those with low levels of employment regulation, no unions and low skills and wages.

This is the main conclusion of an empirical comparative study of US overseas investment by William Cooke and Deborah Noble at Wayne State University, Michigan, published in the latest edition of the British Journal of Industrial Relations.

The countries with the largest US overseas assets were found to be France, the western area of Germany, Norway, Holland and Switzerland. The lowest level of US direct investment was in Colombia, Portugal, Taiwan and the Philippines.

The research indicates US companies prefer to invest in high-skill, high-wage economies rather than those with low skill levels and low wages. It does not suggest such employers are constrained in their investment decisions by the existence of collective bargaining, consultative works councils or government regulation that imposes core labour standards.

The main factors in determining investment, the survey argues, is the average length of education and skill levels of employees. Companies invest more in countries with workers who have above higher education qualifications and higher hourly compensation costs. It concludes: "Many low-skill countries suffer a serious competitive disadvantage."

It adds: "The challenge faced by policy-makers seeking to improve the competitive attractiveness of their industrial relations systems is to find a way of fashioning workplace regulations that improve work environments and protect basic worker rights while providing sufficient flexibility for employers to find means of working without such constraints."

The report says US companies prefer decentralised negotiations with employees but within framework agreements flexible enough to meet corporate needs. It adds that companies favour "co-operative not adversarial relations with their employees."

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Record companies see their stars fly away to the net

Alice Rawsthorn sees how technology could make it viable for more performers to sell their work direct via the internet

When Frank Zappa, the iconoclastic US rock star, won back the rights to all his recordings from the Warner Bros record label in 1985, his wife, Gail, founded a mail order business to sell his music.

The Zappas not only made millions of dollars from their mail order venture, keeping all the profits they had once shared with record labels and record retailers, but also won a prestigious Grammy award for his *Jazz From Hell* album.

Only a handful of other stars have felt confident enough to sell directly to consumers, rather than delegating distribution to record labels. But it could soon become commercially viable for them to do so through the internet and other digital delivery systems.

Until now, Warner and the other multinational groups which dominate the $38bn global music industry have dismissed the prospect of their best-selling artists choosing to control their own distribution as scaremongering. However, according to the lawyers representing those stars, many of them are now seriously considering the possibility of doing so in future.

"It's a subject that is coming up in a lot of conversations, and people are starting to think about it as something they might want to do in several years time when they reach the end of their current agreements," says Tony Russell, senior partner of Russells in London, which advises the Verve, Natalie Imbruglia and George Michael.

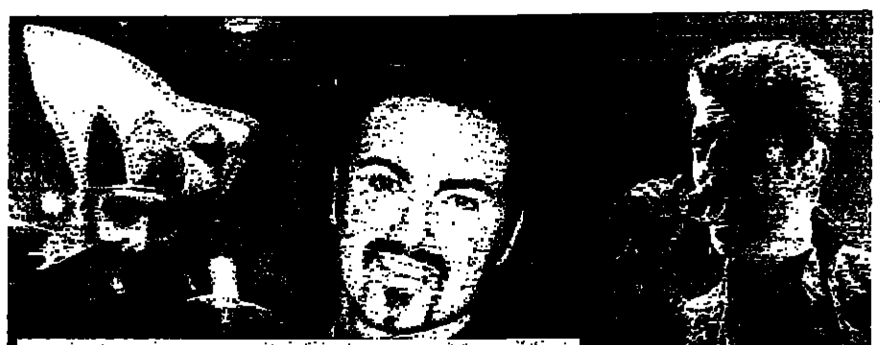
If a large number of pop and rock stars decide to bypass record companies by controlling their own distribution, the financial consequences for the music industry would be dire. Even if a small number did so, record companies would be forced to redefine their roles in order to retain control of their artists. For their part, the artists would undoubtedly be in a stronger position when renegotiating their contracts.

Until now, most musicians have had no choice. Frank Zappa was exceptional in having established such a strong following when signed by a conventional label that he could count on his fans to go to the trouble of buying the albums he released independently by mail order.

Very few other acts have such loyal fans, or enough money to manufacture their own compact discs. They have had to sign with record companies in order to finance the recording of their music, and to tap into their sophisticated distribution networks.

Now the internet promises to provide a cheap, accessible forum from which pop stars can sell to consumers worldwide. CD production costs have fallen recently, making it cheaper for performers to have their own CDs made to be sold by mail order from web sites. Consumers can also buy digital versions of music over the internet by downloading it on to their computers. This practice should become more popular as technology advances.

Record companies argue that stars will still need them to organise promotion and to act as bankers by



US market projections

$m	1998	99	2000	01	02	07
Total US record sales	12,483	13,080	13,705	14,381	15,047	19,007
Conventional distribution	12,366	12,622	12,927	13,041	12,805	12,051
Internet mail order	117	445	731	1,155	1,654	3,239
Digital downloading	0	13	47	185	588	3,717

Source: [illegible]

Frank Zappa, George Michael and David Bowie... rock stars whose music may be sold on the internet

paying advances against future sales. However, many performers already insist that their labels sub-contract promotion to specialist consultancies. Some, like David Bowie and Rod Stewart, can now secure advances against future earnings by negotiating securitised loans from investment banks.

Thousands of young unsigned performers already sell their music from internet juke boxes, such as MP3.com and Internet Underground Music Archive. Older artists, who no longer have record deals, like Todd Rundgren, also distribute over the internet. Some, including David Bowie and the Beastie Boys, have posted occasional songs on the internet for free, but release other material in the conventional way.

At present, internet penetration is too low and too few consumers have access to efficient digital distribution for it to be a viable commercial option for best-selling acts like the Beastie Boys. Similarly, George Michael distributes other people's music over the internet through Aegean Records, a label he founded in 1996, but not his own.

The critical question for the music industry is whether superstars such as George Michael, who has made no secret of his misgivings about conventional record companies, will consider the internet as an appealing and workable alternative to signing a recording contract.

Paddy Grafton-Green, senior partner at Theodore Goddard in London, which represents the Rolling Stones and David Bowie, says some of his clients are already planning ahead by opting for shorter term deals when renewing contracts. "Internet distribution isn't a practical option right now," he says. "But they are aware that it might be in future."

Kenyan traders protest over export rule

By Mark Turner in Nairobi

Kenya's chamber of commerce has protested against a regulation which obliges all exports to Tanzania to be sold through a government-registered agent, only six months before both countries intend to enter into a common market and customs union.

According to the rule, all goods from countries in Comesa, the southern and east African trade zone, can only be traded in Tanzania through a registered sales agent appointed by the supplier or manufacturer of the product. Any goods circumventing the stipulation can be impounded.

Though manageable by larger companies, such as Kenya Breweries, the stipulation threatens to destroy informal small-scale commerce, according to Kassim Owango, chairman of Kenya's Chamber of Commerce.

"This will hurt the bulk of the business community," said Mr Owango, who argues that establishing agents is beyond the means of small businesses. "We are calling the Tanzanians to the negotiating table to justify their actions."

The complaint adds to concern that moves to re-establish the East African Community (EAC), including a commitment to eliminate all tariffs between Uganda, Kenya and Tanzania by the end of next year, are having relatively little impact in practice.

Samuel Ambuka, Kenya's permanent secretary for regional co-operation, said that he was handling another complaint, this time from Kenyan architects operating in Tanzania, who were outraged at a new rule requiring them first to register an office there.

"Before, we paid $300 a year to the trade association, and forgot about it," said Simon Johnson, a Kenyan architect. "Now we have to establish an office in Dar es Salaam, costing $10,000 in preliminary fees, and $5,000 a year thereafter."

Mr Ambuka described the requirement as "strange", especially "when we are encouraging cross-border professional practice".

The treaty establishing EAC was originally meant to be signed by the end of 1998, but was delayed by six months after Tanzania complained that it required a Kiswahili translation.

Aside from establishing a tariff-free zone, the three countries say they will eliminate all non-tariff barriers, establish an East African Community Court, and move towards monetary union within a decade.

But serious obstacles remain. Tanzania is facing severe tax collection problems which, as trade becomes freer within east and southern Africa, are likely to get worse.

"This move was to help us in revenue collection," said Merisho Farakikya, Tanzania's High Commissioner in Kenya, justifying the new requirement for national agents.

"Take beer, for example. Many people were importing it through informal channels, and in this way we were losing a lot of money."

But fears are growing in Uganda and Tanzania that a revamped community will serve only Kenyan interests at the expense of their own manufacturers, raising concerns that tariffs will merely be replaced by more subtle obstacles.

"The revival will shock our industrial sector," Sam Tulya-Muhika, chairman of Uganda's task force on the EAC, said recently. "Most of our industries cannot compete, especially in household consumer products."

NEWS DIGEST

MOVE 'SEPARATE FROM FTC PROBE'

Boeing and Airbus quizzed by Brussels over prices

The European Commission yesterday said it had asked Boeing of the US and Europe's Airbus Industrie consortium, the world's two biggest aircraft makers, for more information about their pricing strategy. An official said that the move was entirely separate from a similar inquiry made by the US Federal Trade Commission (FTC) and that Brussels was examining the companies' responses to a series of questions sent to them earlier this year after they announced increases in prices.

The official said Brussels was investigating "what was behind" the statements made by the two companies at the Farnborough air show when they simultaneously announced a price increase. "We need to be convinced that there is no price-fixing agreement," he said.

The FTC has also asked the two groups to submit pricing information and answer preliminary questions by the end of the month. **Emma Tucker, Brussels**

BANANA DISPUTE

Talks to resume on Monday

US and European Union negotiators held a second day of talks yesterday on how to resolve their banana dispute within the World Trade Organisation and avoid a trade war. The two sides are trying to agree the conditions and timetable for establishing a WTO dispute panel to decide whether the EU's new banana import arrangements comply with the organisation's rules. EU trade diplomats said the talks would resume at senior level on Monday, after the US Thanksgiving holiday break.

Both sides now say they are prepared to abide by WTO procedures under which the same panel that ruled against the EU's previous banana import scheme would examine whether changes to be introduced by the EU on January 1 go far enough.

But the US wants the panel to report by January 15, enabling it to stick to its previously announced timetable for imposing trade sanctions against the EU for non-compliance with WTO rulings on bananas.

Brussels, which does not accept the January 15 deadline, has made recourse to a panel conditional on US agreement to withdraw its sanctions threats and abide by any ruling in the EU's favour. **Frances Williams, Geneva**

MERCOSUR

WTO warning to Uruguay

The World Trade Organisation says Uruguay's membership of Mercosur – the common market linking it with Brazil, Argentina and Paraguay – has stimulated economic restructuring and modernisation but left the country vulnerable to its neighbours' vicissitudes. In a report on Uruguay's trade policies and practices discussed by WTO members this week, the WTO secretariat urges greater efforts to diversify production and to find new markets.

Since 1992 Uruguay's merchandise exports to its Mercosur partners have risen by a third to more than half of all exports, while deliveries to the rest of the world have declined. Brazil alone takes nearly 40 per cent of Uruguayan goods, the WTO notes. Moreover, Uruguayan exports are heavily concentrated on primary products which account for 62 per cent of the total. Manufactured exports have declined.

The report finds fault with high tariff rates on many products, tax and duty exemptions that raise protection levels further, and minimum export prices for textiles and clothing that have isolated the sector. **Frances Williams**

ELECTRICITY SUPPLIES

Pakistan and India in talks

Pakistan has indicated it has up to 2,000MW of surplus power it could export to India, but a deal is unlikely to be reached quickly. A joint statement by both countries yesterday said the two sides had still to work out the quantity, price and duration of any electricity supplies from Pakistan. Power lines also would have to be built to connect the two countries. Pakistan and Indian power ministry officials will meet again in New Delhi at a "mutually convenient date" following their initial talks in Islamabad.
Andrew Taylor, Utilities Correspondent

هكذا من الاهل

Pakistan to track money dealers' trade

By Farhan Bokhari in Karachi

Pakistan's central bank yesterday said it had ordered a national database of foreign currency transactions through money changers in a drive to improve its understanding of the largely undocumented market.

The State Bank of Pakistan said the move was prompted by the recent slide of the rupee, at one point driving the gap between official and market rates to more than 30 per cent, up from the usual 8-10 per cent gap. Under the plan the bank would collect information from money dealers on the volume of daily business.

The rupee yesterday climbed by more than 3.5 per cent to close at Rs54.20 to the US dollar in the open market. This was largely on the news that Pakistan had reached an understanding with visiting International Monetary Fund officials on a new loan programme that could help stave off a debt crisis.

Senior officials in Islamabad had said closer regulation of the currency market was also a significant step towards preventing a slide of the rupee, and was indirectly connected to some of the conditions tied to the expected IMF agreement.

Pakistan said on Wednesday that it would not devalue the rupee in spite of falling exports; these fell by about 10 per cent last month against the same month a year ago.

The success of government efforts to maintain the existing exchange rate depended in part on the open market rate, bankers said.

"We have learnt from recent experience that we should have more information on the volume and the size of foreign currency business," said Muhammad Yaqub, central bank governor.

Money changers said foreign currency trade ranged between US$150m and US$450m a month. "There are major swings either way, and it depends on the scale of uncertainty on any given day. But there has never been documentation on the size of the business," one banker said.

In spite of the government's public stance on the rupee, bankers said privately that Pakistan would probably unify its two exchange rates in the next few months, in line with IMF conditions.

Within two months it may begin enforcing a 15 per cent general tax on retail transactions, agreed with the IMF, and has made promises to step up reform in the tax collection department.

Singaporeans stick with government's social contract

While their neighbours are challenging efforts to cope with the regional crisis, the city state is buckling down, reports **Sheila McNulty**

When the Singapore government cut wages by 15 per cent this week, urging business to do the same, there was not so much as a whimper.

"Nobody in the office has even mentioned it," said Hugh Young, managing director of Aberdeen Asset Management Asia.

All around them, Singaporeans have quietly watched other east Asians challenging efforts by governments and businesses to cope with the economic crisis, at times even taking to the streets. In Hong Kong, for instance, one of the territory's largest private employers, Hong Kong Telecom, reversed a 10 per cent wage cut under pressure from labour.

But the Singapore government has warned repeatedly that its people would have to do their part to help the nation through the crisis. The city state's 3m people have a social contract with their government: they will submit to its authority as long as it continues to lead them forward. The 15 per cent wage cut is part of a comprehensive package approved by parliament on Wednesday to uphold that contract.

"Few other countries are in a position to implement a package like this, or to persuade the workers to support such austerity measures as being in their own long-term interests," Lee Hsien Loong, Singapore's deputy prime minister, told his people.

In addition to lowering labour costs, the package includes corporate and property tax rebates, and a reduction in infrastructure and services costs. Ministers took the lead with a 10 per cent pay cut, on top of the other wage-cutting initiatives, and the unions gave their support for the private sector to follow. The government expects the measures to help stem job losses, which at 22,000 are already more than double last year's figure, and to enable Singapore to emerge more competitive when the crisis ends.

The city state's well managed and transparent system has made it a safe haven among investors withdrawing from less stable neighbours. As a result, its currency has depreciated far less than others in the region, creating a premium in business costs for foreign investors. "We need to restore our competitiveness urgently," said Goh Chok Tong, prime minister, in preparing Singaporeans for the package.

He pointed to the city state's loss of market share in electronic products as the most compelling evidence that costs have become too high. Its share of US electronics imports was 9.3 per cent before the crisis. It fell to 7.4 per cent in August. Singapore's relative unit labour cost, which compares wages with competitors, rose about 17 per cent between 1994 and 1997.

"When the region was booming, this was a concern but not a critical problem," Mr Goh said.

"But economic conditions have totally changed and we are competing for a shrinking economic pie."

Foreign investors in Singapore have noticed already the extra effort to compete. Russell Whitehouse, regional director at Guardian Insurance in Singapore, said Singapore had tried to be more "customer friendly" as the UK company completed its move from Hong Kong this year. The authorities eliminated the previous restriction against running a regional headquarters out of a branch office, ended the minimum paid-up capital requirement on insurance companies establishing regional offices, and went out of their way to ease the company's transition.

"The government has taken a lot of steps to try to loosen up restrictions to doing business in Singapore," Mr Whitehouse said. The US company Caltex Petroleum and Europe's Glaxo Wellcome Manufacturing and Nokia are just some of the big names moving in to take advantage of Singapore's heightened efforts.

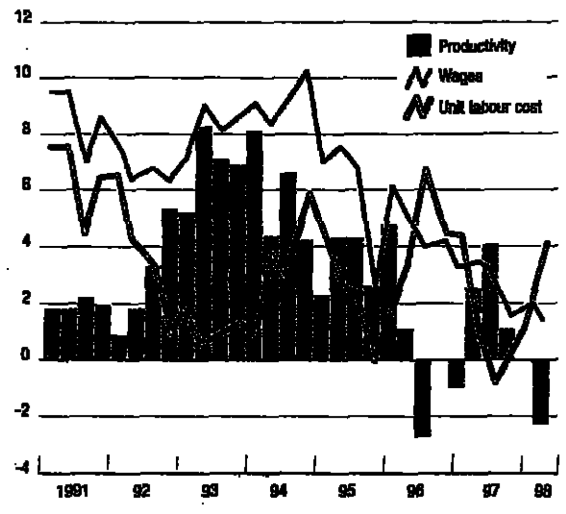
The city state's biggest competitor, Hong Kong, is starting to lose out. Not only are its property prices higher but its authorities have shocked investors by intervening to support the stock market. This, together with neighbouring Malaysia's unorthodox currency controls, mean that Singapore's attempts to open its economy stand out in the region. "Everybody else is closing and looking inward because of this economic crisis and Singapore is doing the opposite," said Kostas Panagiotou, senior economist at Kim Eng Securities. "Singapore is opening up. They take a long-term view."

The government's first task is always to ensure the people see things as they do. Lee Kuan Yew, Singapore's senior minister, said the government spent six months getting its message through to the public before imposing the cost-cutting package.

"Had we simply come out to say: 'Your wages will be cut by 15 per cent and pension contribution by 10 per cent', there would have been a revolt... Everyone has been prepared for these unpleasant cuts. Everybody knows if we don't do this, we will lose more jobs. Which do they want?"

The city state's 3m people have a social contract with their government: they will submit to its authority as long as it continues to lead them forward. The 15 per cent wage cut is part of a package to uphold that contract

Singapore
Year-on-year % change



HK currency board aims for transparency

By Louise Lucas in Hong Kong

The Hong Kong Monetary Authority (HKMA), the territory's *de facto* central bank, yesterday unveiled new measures to fine-tune the currency board.

Enhancing the currency board, which backs the Hong Kong dollar's link to the US dollar, has been on the agenda since the currency came under attack in August. The measures are designed to increase the board's transparency and improve its workings.

The setting of the base rate, or discount rate for clearing transactions in the money markets, will now be subject to a transparent formula rather than being set by the HKMA.

However, the HKMA has reserved its controversial ability to penalise banks by imposing a punitive rate where necessary. This will be used to penalise banks believed to be facilitating market manipulation and in other "exceptional cases", the HKMA said.

The HKMA also paved the way for bringing exchange rates into line. As part of steps taken to bolster the currency peg in September, the government issued a convertibility guarantee, pledging to buy back government debt at a rate of HK$7.75 to US$1. This was the rate at which the HKMA intervened in the money markets but it created an anomaly as it is marginally higher than the exchange rate of HK$7.8.

Yesterday the government said it would switch the rate on debt paper to HK$7.8 but would do so gradually to eliminate market disruption. The rate will inch upwards from HK$7.75 to HK$7.8 by one pip (or HK$0.0001) per calendar day over 500 days.

Bankers said the HKMA's decision to establish new rules underlined the stability that has returned to the markets since the August currency attack, which sparked the government's unprecedented intervention in the stock market.

The second measure announced yesterday creates a formula for setting the base rate, which has been set by the government since September. The floor will be set at a 150 basis point premium to the US federal funds target rate, and the rate will be based on the five-day moving averages of overnight and one-month Hibor (Hong Kong interbank offered rate).

Under the currency board mechanism, interest rates automatically rise when there is capital outflow. This meant the territory suffered high interest rates for most of this year, especially during the currency attack of August, and as a result asset prices plunged.

Trade volumes plunge in October

Hong Kong trade volumes plunged in October, sapped by slack demand from across the globe. The crisis-hit south-east Asian countries were last month joined by China – Hong Kong's biggest trading partner – and the US and Europe as countries with moderating demand, writes **Louise Lucas**.

Government figures released yesterday showed the value of total exports fell 17.5 per cent last month, against October last year, to HK$118bn (US$15bn). At the same time, the value of imports slumped 22.4 per cent year-on-year to HK$118.7bn, reflecting weak demand in Hong Kong's own recessionary economy.

The setback in exports was "of much concern", the government said, although the decline partly reflects the high base in October last year, when Hong Kong racked up a record value of exports.

Big increase in Japan output of 'mini-vehicles'

By Paul Abrahams in Tokyo

Output of automotive products in Japan rose for the first time in 13 months during October. However, the apparent improvement was due entirely to a doubling in output of "mini-vehicles" with engines under 660cc. New safety regulations introduced last month resulted in mini-car manufacturers launching a dozen new models.

Overall vehicle output rose 0.6 per cent year-on-year to 943,626 vehicles. Car production rose 5.9 per cent to 773,000 units. But a 110 per cent increase in output of mini-vehicles to 159,800 units appears to have led to continued cutbacks in production of other cars. Output of vehicles over 2,000cc fell 0.1 per cent to 276,000, while cars between 660cc and 2,000cc declined 10.7 per cent to 336,700.

The increase in production, moreover, appears not to have been translated into a large rise in sales. The Japan Mini Vehicle Association reported that sales increased 11.9 per cent during the month to 136,354, the first rise in 13 months, but well below the production increase. Those doing particularly well were Fuji Heavy, up 29 per cent, and Mitsubishi Motors, up 45 per cent. In the previous month, mini-vehicle sales had fallen 16 per cent year-on-year to just 123,900 units.

The automotive sector is suffering from depressed consumer demand. This has been weakened by record levels of unemployment, falling bonuses and declining overtime that have undermined take-home pay. Fears about the weakness of company and government pension schemes have also boosted savings.

Mini-vehicles account for about 25 per cent of the Japanese market. Drivers appear to have taken to mini-vehicles because of their low prices. The vehicles are taxed and insured at lower rates.

Japanese vehicle production

	October	% change Year-on-year	Jan-Oct	% change Year-on-year
Total	943,626	+0.6	8,423,386	-9.1
Cars	773,278	+5.9	6,702,464	-8.5
Over 2000cc	276,706	-0.1	2,546,981	-1.1
Up to 2000cc	336,772	-10.7	3,432,586	-9.5
Mini*	159,801	+110.5	722,808	-8.4
Trucks	165,472	-18.1	1,672,130	-18.5
Heavy	67,995	-17.5	710,045	-11.1
Light	41,650	-34.8	445,651	-34.2
Mini*	55,827	+0.1	515,945	-10.3
Buses	4,675	+10.5	48,782	-8.0

* Mini vehicles have a maximum engine displacement of 660cc and receive preferential tax treatment.

Indonesia slims port sale plans

By Sander Thoenes in Jakarta

Six bidders qualified for a tender to manage two of Indonesia's prime container terminals, officials said yesterday, confirming that the government had backed out of plans to privatise the whole port authority.

The six are expected to perform due diligence in December and bid in early 1999 for rights to form a joint venture, which will have a 20-year concession to operate and manage two terminals in Tanjung Priok, Jakarta's largest port.

The bidders are AP Moller Group, Grosbeak, International Container Terminal Services, P&O Ports, Stevedoring Services of America and Peony Investment.

The winner's partner will be state-owned Pelabuhan Indonesia II (Pelindo), which manages Tanjung Priok and other large ports in Indonesia and had been one of 12 companies listed for privatisation by April 1999.

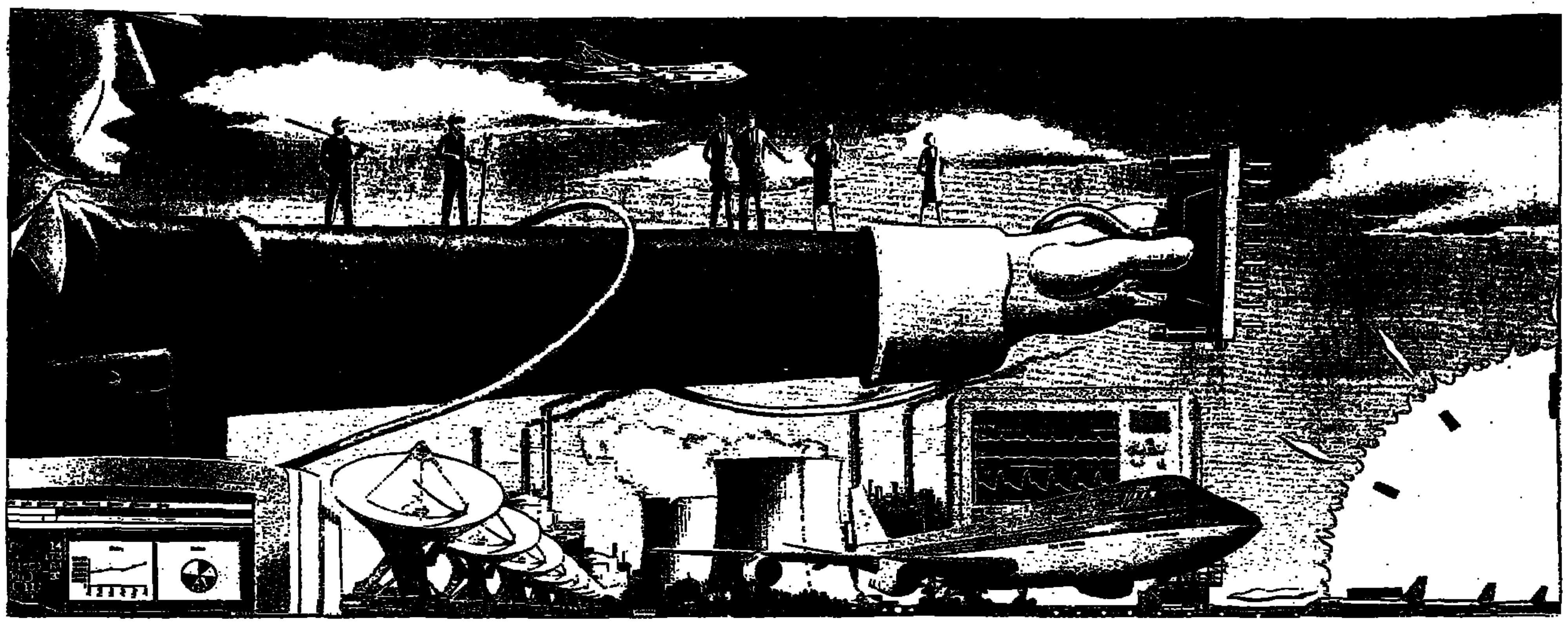
Officials cancelled, delayed or modified all 12 sales, however, leaving Indonesia far short of its stated aim to raise $1.5bn this year. Officials have cited legal obstacles to privatisation of infrastructure, including Pelindo, but analysts suspect that the government of President B.J. Habibie is also wary of being accused of selling the country cheaply.

Indonesia's only sale so far this year was a 14 per cent stake, scaled back from 35 per cent, in a partially privatised cement mill.

Pelindo earlier this month predicted net profits for 1998 of Rp527bn ($70m), up nearly 130 per cent, and said half of its profits came from the two port terminals up for tender.

YEAR 2000

A FINANCIAL TIMES GUIDE TO THE MILLENNIUM COMPUTER PROBLEM



Aviation chief puts faith in flight

FAA head Jane Garvey will be airborne when the millennium midnight hour strikes. But not in a Third World airliner. **Michael Skapinker** and **Charles Batchelor** report on how transport systems will cope with the date problem

Shortly before midnight on December 31 1999, Jane Garvey, head of the US Federal Aviation Administration, will board an aircraft and fly coast-to-coast.

The gesture is designed to persuade the US public that it is safe to fly, in spite of headlines warning that aircraft risk crashing because of the millennium bomb.

US airlines can cope with the millennium, Ms Garvey promises. "I have given my commitment to the American public, and I now commit to you, their representatives, that aviation safety will not be compromised on January 1 2000, or on any other day," Ms Garvey told a US congressional committee earlier this year.

Most US aviation systems will be ready for the millennium by March next year, she said. All systems would be fully compliant by the end of June.

But while the US is confident it can solve its millennium computer problems, there are worries about governments in the developing world. Airlines, shipping and distribution companies fear the failure of some states to address the issue could cause widespread disruption in a range of transport industries.

"It is not even clear that some third world countries have heard of the millennium problem," David Rowlands, director general of railways, aviation and shipping at the UK transport department told MPs this month.

KLM, the Dutch airline, has warned that it might have to ground part of its fleet on New Year's Eve because of the failure of some governments to ensure their air traffic control systems were millennium compliant.

Even in the US, Ms Garvey admitted some smaller airports were being given special help to ensure they were ready for the millennium. "They lack the resources to hire the necessary personnel with the unique expertise to conduct assessments of their existing airport facilities, technology systems or equipment," she said.

KLM says this problem occurs in several parts of the world, where, unlike in the US, governments are ill-equipped to help. Max Rens, KLM's head of information, said: "We don't trust the governments. We think that they are too late. They are not pro-active. I'm fearful that we will not be ready in time. There will be delays and detours. Planes will stay on the ground and this means capital will not be generating money. Within half a year, some airlines will be facing bankruptcy."

The main problem for ships is unlikely to be radar and radio contact but their propulsion systems, which are computer controlled. If these fail, a ship could be left without power and in danger of capsize or grounding.

Railways depend to a similar degree on computer systems to draw up timetables, control trains and provide information to passengers and to managers. The underinvestment in many railway systems around the world

'We don't trust the governments. We think that they are too late. They are not pro-active. I'm fearful that we will not be ready in time'

has meant that many have elderly IT systems which require updating.

In the UK, Railtrack, which manages the railway infrastructure, is co-ordinating a campaign to persuade the privatised rail companies to co-operate in dealing with the problem. It has estimated the cost of upgrading at £60m.

Swiss Railways has been modifying about a quarter of its systems and is currently carrying out tests of the upgrades. It has calculated that half of its systems do not present a problem because they are relatively new while a further 25 per cent will be replaced before 2000 anyway through routine renewals.

On the roads, the computerised traffic control systems installed in many cities pose a problem. They have been programmed to respond to changing traffic volumes to maximise the use of road space and speed traffic flows.

At worst, traffic lights will revert to a straightforward red, amber and green sequence if they have not been modified or faulty chips have been missed, Mr Rowlands told the British House of Commons transport select committee. The lights will continue to work but they will not remember the phasings which have been programmed into their memories.

The logistics sector, meanwhile, faces the prospect of disruption from problems with *delivery dates, route planning* systems, scheduling, vehicle maintenance and temperature monitoring devices, Exel Logistics, a leading company, warned.

Date dependent chips are embedded in a wide range of equipment, from on-board computer systems to laptop PCs and warehouse access controls.

A recent survey by Cap Gemini, a computer services group, showed 43 per cent of medium-sized and 49 per cent of large retail, distribution and wholesale organisations were attempting to fix the problem. But these sectors were in turn dependent on the transport and utilities sectors where only 18 per cent of medium and 25 per cent of larger organisations had begun to seek solutions.

Next Wednesday
More on Year 2000 in the FT *Information Technology Review*

MILLENNIUM FACT FILE

Your questions answered

Q. Do I need to do anything about my long-term savings and pension plans? Or my bank accounts?

A. Banks and other financial services companies are potentially among the most vulnerable to year 2000 problems. But because they have been aware of the problem for some time, most have long been working to ensure compliance.

For example, some Wall Street banks began work five years ago and in Britain, the five main high street banks are spending several billions of pounds to ensure year 2000 compliance.

However, because it is never possible to test everything, it might be a good idea to double check statements which span the New Year.

Q. Is there a 'silver lining' to this cloud, or is spending on year 2000 projects money down the drain?

A. To the extent that ensuring compliance could help ensure the survival of a business, year 2000 money will be well spent. In any case, there are some positive business benefits.

It has encouraged many companies to upgrade their systems and replace ageing or obsolete software and hardware with modern standard-based packages. Many companies have also found that in checking with suppliers and customers, it has helped cement relationships and encouraged business-to-business electronic commerce links.

Finally, just in case the worst happens, many companies have been forced to take a closer look at their disaster recovery plans they have one, or put in place a plan if they did not.

Q. Who is making money out of this problem?

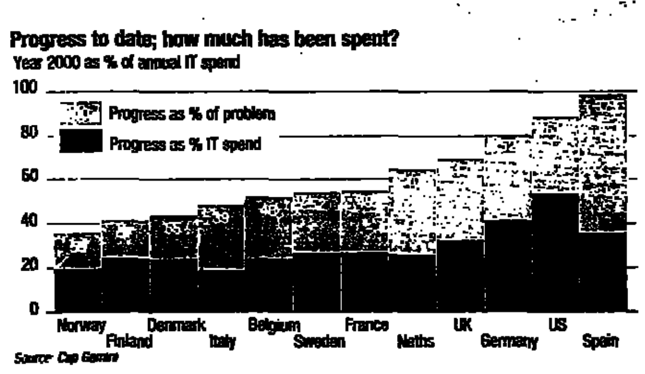
A. A surprising number of people. Top of the list are the information technology gurus and management consultants, some of whom have turned the problem into a big money-spinner writing books, giving speeches and advising governments and companies.

Computer programmers, already in short supply, have also done rather well. Day rates for contract staff have soared and some companies have outsourced all their year 2000 work to companies in India and elsewhere.

Software companies have benefited in a number of ways. Companies like Viasoft and Micro Focus which have developed Year 2000 tools to help check, correct and test code have generally done well, as have companies selling year 2000-compliant upgrades.

SAP and other enterprise resource planning software vendors have also benefited as some companies chose to scrap old software and introduce new integrated systems. Computer suppliers, including PC vendors like Compaq Computer and Dell, have sold more machines as old non-compliant PCs have been thrown out.

Further down the line lawyers are also likely to cash in. Already some firms have developed expertise in this area and offer advice on issues like contract wording. *If there are big year* 2000 problems they could also benefit as litigation is almost certain to follow, although in the US in particular, the government has acted to limit liability.



Source: Cap Gemini

Insurers run for cover as risks become apparent

Alarmed by the potential scale of the problem, insurance companies are inserting exclusion clauses for millennium bomb losses, reports **Andrew Bolger**

Many insurers are determined not to offer cover against the effects of the millennium "bomb" – even though this may result in some of them being sued by their customers if disaster does strike.

The reason for this hardline approach has been baldly stated by the Association of British Insurers: "The problem is very difficult to quantify, but under some scenarios, the cost could be so vast it could threaten the capital base of the UK insurance industry if widespread cover was provided."

Faced with such an unpalatable prospect, insurers have said the year 2000 is not a "fortuitous" event, and therefore is not covered by traditional policies.

The ABI says: "The year 2000 is predictable and *foreseeable* and has been since the present calendar came into effect."

Possibly, but insurers do not seem to have woken up to the implications of the millennium bomb any sooner than their customers. When the ABI last year commissioned a report by solicitors Cameron McKenna, they found 75 per cent of UK companies would have legitimate grounds for making an insurance claim under existing policy wordings.

Leading insurers have therefore started to insert exclusion clauses designed to protect them against potential payouts in commercial insurance policies, prohibiting claims for business interruption and property damage unless caused by fire or other defined perils.

In product and professional indemnity, the wordings would make it impossible to claim back millennium-related financial loss from legal liability and the costs of mounting a defence if sued.

Several US insurance companies, including American International Group and the brokers Aon and Marsh & McLennan, have begun to provide year 2000 cover. However, they generally require a full risk assessment conducted by an external specialist. Axa, the French-based insurer, is also offering larger companies cover agains the loss of information or programming.

The UK Association of Insurance and Risk Managers, whose *members comprise risk managers* in private and public sector organisations, says many executives in smaller companies may not be aware they could be held responsible for bomb-related failings if negligence is proved and they do not have insurance.

The ABI says insurers may be prepared to offer some cover against millennium-related risks, but this will depend on policyholders having taken action to ensure their business systems are "millennium-compliant", as well of those of their suppliers and customers.

But it warns: "Insurance is not an alternative to taking action, and the directors of any company who think it is are failing in their basic duties."

Banking regulators force the pace of year 2000 compliance

How financial institutions are handling the millennium bomb is a crucial part of supervisors' assessments, reports **George Graham**

If the financial services industry ever felt like ignoring the millennium bomb, that feeling passed quickly once regulators such as William McDonough, president of the Federal Reserve Bank of New York, started to hammer on the table.

Banks were among the first to feel the millennium effect when machines started to reject credit cards issued with a next millennium expiry date, and rapidly recognised the risk of miscalculations on loan payments or statement details.

But what worried the regulators more was the danger of a collapse in central payment systems or of a surge in loan losses if the millennium bomb struck banks' customers.

The *state* of preparations for the year 2000 date change now forms a central part of supervisors' assessments in the banking, securities and insurance industries.

"Handling the year 2000 problem responsibly is a criterion for assessing whether or not banking business is being conducted properly," said Edgar Meister, a board member of Germany's Bundesbank, at a recent meeting on the issue in Frankfurt.

Regulators from the Basle Committee on Banking Supervision, the Committee on Payment and Settlement Systems, the International Association of Insurance Supervisors and the International Organisation of Securities Commissions have formed a Joint Year 2000 Council *which has pooled information* and applied discreet pressure on countries which were perceived not to be paying enough attention to the millennium issue.

Individual financial institutions and their supervisors are now reassuring about the state of readiness.

In the US, a survey of banks and other depository institutions found 4 per cent were rated as "needs improvement" and fewer than 1 per cent as "unsatisfactory." In South Korea, the Bank of Korea found 82 per cent of financial institutions' resources were year 2000 compliant by the end of June, with compliance in the banking sector at 89 per cent.

The Bank of Korea noted that the insurance sector was "relatively slow in its readiness progress," a complaint echoed in some other countries. However, the insurance industry has less common infrastructure and fewer external connections than the banking industry.

In the UK, a more general survey by the Bank of England concluded that "the financial sector in the UK is well advanced in its year 2000 work, both in *relation* to other sectors domestically and to the financial sector internationally."

Large common infrastructure systems such as the Swift financial *message network have also* undertaken a great deal of work to make sure they are ready by the end of 1998, leaving enough time for users to run tests.

Some financial institutions have cautioned, however, against industry-wide tests. "With the time remaining and the resources available, the most important thing is for people to do their internal testing first," said a senior European banker.

The next step for the financial sector is to make an assessment of its customers' behaviour. Some banks have been worried at the lack of preparation of their small business clients and have been working to raise the level of awareness, in the hope that fewer will run into severe difficulties.

Banks are also having to guess at customers' psychology. The end of 1999 will already be a long weekend in which withdrawals from cash machines are expected to reach record levels. If, in addition, *people are worried about a* millennium crash in the financial system, they may withdraw even more cash in anticipation, placing further stress on ATM networks.

Contingency planning is also under way, in case outside dependencies, such as electricity and telecommunications networks, should fail to cope with the date change.

Trust the tax authorities to get it right

In Britain there's no need to worry about paying your taxes or receiving welfare payments. But the health service may suffer. **Nicholas Timmins** reports

"Can you put your hand on your heart," the minister in charge of one the UK's largest public sector organisations was asked the other day, "and say you will have no year *2000 problem?" "No," came the* answer.

And that from a country, which publicly at least, claims to be a world leader in addressing the millennium bomb.

As people worry whether airliners will drop from the sky on January 1 2000, whether banks will release cash or whether gas, electricity and water supplies will *continue, the public sector's* worries are as big. Will pension and benefit systems – critical to the elderly and infirm – pay out? Will hospitals operate? Will government revenues continue to flow?

The short answer, as with so much of the millennium bomb issue, is that no one knows for sure. But the problems are not always where they might at first appear to be.

Almost all pension systems and most social security systems have always needed to know individuals' date of birth – and thus *have dealt with four figure dates* for people born in the last century for as long as social security has been computerised.

Much the same often applies to tax systems, where allowances and other items of the tax code can be age dependent.

The systems may not be without problems, but it is likely to be the peripheral parts of a system, and its connections to other systems, which carry the threat rather than the core of the business.

In the UK, the Inland Revenue says confidently that there won't be a problem – not least because it has recently replaced most of its systems – and the agency which runs the social security system's computers is almost as confident.

But elsewhere – in health care (which is often publicly financed even when it is privately provided), in local government, the emergency services, and local benefit delivery systems, serious worries remain.

These range from the major – what if embedded chips in traffic lights prove not just time but date dependent? – to the much smaller scale but potentially serious.

The UK's Audit Commission recently highlighted plans by one local authority to provide portable heaters to old people's homes in case central heating boilers failed.

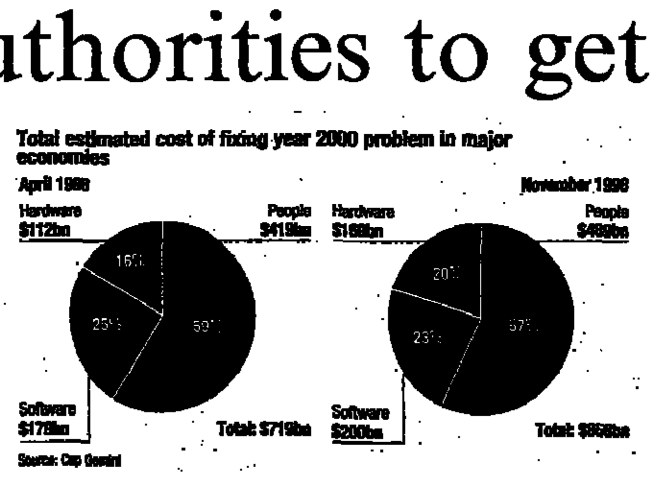
Most information about how countries rank in terms of preparedness depends on private sector surveys (from which alarming scenarios can generate business) to country's own assessments of their readiness (and no one wants to say that they are badly unprepared).

Health care remains a particular concern – some of the earliest evidence that year 2000 could cause problems came when cancer screening programmes discovered their computers could not handle recall dates set for the next century.

Patient administration and records are heavily date dependent on date-affected programmes, and there is much worry about embedded chips in a huge range of medical devices, *although most* manufacturers' are making reassuring noises.

While the UK's National Health Service is now said to be making better progress with preparations, the Organisation for Economic Co-operation and Development says a recent survey of US hospitals showed that 30 per cent had not even begun to address the problem.

An *added problem for the* public sector is that while the private sector has frequently addressed the problem by installing new systems, financial constraints have tended to force the public sector to seek to update often elderly systems – at a time when the skills to do that are in ever greater demand and ever shorter supply.



Source: Cap Gemini

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CONTRACTS & TENDERS

LEGAL NOTICES

No. 06476 of 1998

IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
COMPANIES COURT

IN THE MATTER OF
QUADRANT CATERING LIMITED
- and -
IN THE MATTER OF THE
COMPANIES ACT 1985

FIRST ADVERTISEMENT FOR THE FINANCIAL TIMES

NOTICE IS HEREBY GIVEN that a petition was on 12 November 1998 presented to Her Majesty's High Court of Justice for the cancellation of the share premium account of the above named company.

AND notice is further given that the Petition is directed to be heard before the Registrar of the Companies Court at the Royal Courts of Justice, Strand, London, WC2A 2LL on 16 December 1998. Any creditor or shareholder of the Company desiring to oppose the making of an order for the confirmation of the reduction of the capital should appear at the time of the hearing in person or by counsel for that purpose.

A copy of the Petition will be furnished to any person requiring the same by the under-mentioned solicitors on payment of the regulated charge for the same.

DATED 25 November 1998

Nabarro Nathanson of
50 Stratton Street,
London, W1X 6NX,
Tel: 0171 493 9933,
Ref: BG/RZV/G1728/00024.
Solicitors to the Petitioner.

No. 06074 of 1998

IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
COMPANIES COURT

IN THE MATTER OF
GOLF CLUB HOLDINGS PLC
- and -
IN THE MATTER OF THE
COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that the Order of the High Court of Justice (Chancery Division) dated 18 November 1998 confirming the reduction of the share capital of the above named Company from £7,563,722.60 to £3,544,349.65 and the reduction of the share premium account of the above named Company by £5,344,000 and the Minute approved by the Court showing with respect to the capital of the Company as altered the several particulars required by the above-mentioned Act were registered by the Registrar of Companies on 23 November 1998.

DATED this 27th day of November 1998

Ashurst Morris Crisp
Broadwalk House
5 Appold Street
London EC2A 2HA
Tel: 0171 638 1111
Ref SAW/550C00131(A)
Solicitors for the said Company

BUSINESSES FOR SALE

هكذا من الاجل

DIPLOMATIC CORPS INCREASED REPRESENTATION AGREED FOR EMERGING MARKETS

Extra posts for China and Japan

By Andrew Parker, Political Correspondent

Extra UK consulates in China and Japan will be announced today by Robin Cook, the foreign secretary, after a sweeping review of diplomatic representation.

Many missions will have their staff upgraded. Those in emerging markets will have UK staff to underline their importance, instead of relying on locally based personnel.

The review has rejected the case for selling prestige buildings such as the embassies in Paris and Washington.

Increased representation in emerging markets will be part of an attempt to secure UK exports. Mr Cook will say he wants to place more staff in countries applying to join the European Union.

He will also announce proposals to sell off Foreign Office assets outside the UK at a rate of £30m ($50m) a year from next April. The money will also be used to improve the department's representation in emerging markets. The review of the UK's embassies and consulates had considered closure of about 30 missions. But ministers decided to shut down fewer than 10, none of them embassies. They are spread across the world. Ministers will argue that the review has been a success because more posts are opening than closing.

The Treasury has in the past taken the proceeds from any asset sales by the Foreign Office. But Gordon Brown, chancellor of the exchequer, agreed as part of a government spending review that Mr Cook's department could "recycle" the receipts. Mr Cook regards trade promotion as an increasingly important part of the Foreign Office's post-cold war role.

A review of UK trade promotion, to conclude shortly, will acknowledge the Foreign Office has a prime role alongside the Department of Trade and Industry. Foreign Office staff in embassies and consulates already provide UK companies with information about export opportunities.

"The Foreign and Commonwealth Office will increasingly focus on promoting British business and be more responsive to the needs of British people abroad through its commercial, consular and entry clearance activities," the spending review said in July.

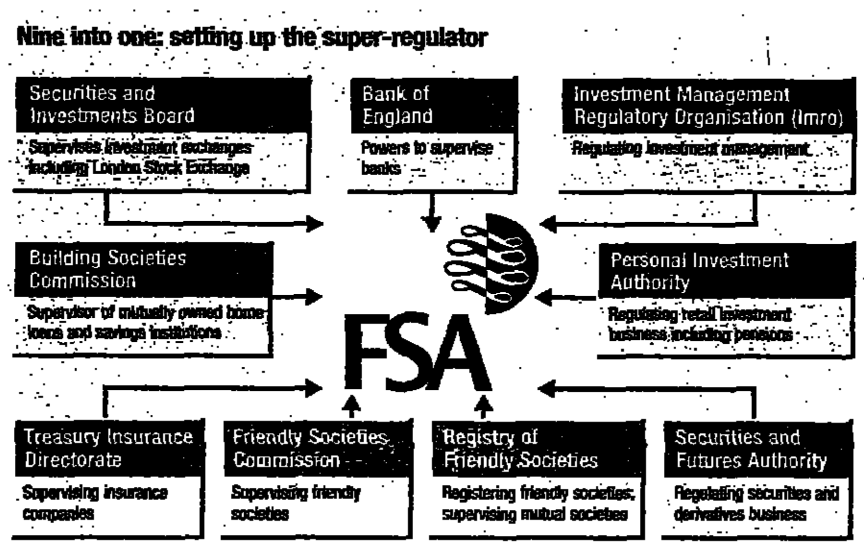
Sir John Kerr, the top official at the Foreign Office, warned this year that UK exports could be jeopardised if his department's budget was cut.

Mr Brown agreed a relatively small increase in the budget, currently £1bn, but ameliorated the impact by endorsing Mr Cook's proposal to "recycle" assets.

City super-regulator to pick up pieces of fragmented system

Ministers plan sweeping changes, but the new body's powers have been described as draconian, says **Deborah Hargreaves**

Nine into one: setting up the super-regulator



The UK government is preparing sweeping changes to financial regulation in the City of London, in a controversial bill that has been criticised for being draconian.

Ministers said this week they will introduce legislation in this session of parliament to give the Financial Services Authority – the City's new super-regulator – power over the entire banking and investment industry. The legislation is expected to become law in 2000.

Critics say the bill will give the FSA unfettered powers with little accountability. A legal opinion has even suggested the bill would contravene the European Convention on Human Rights, which lays down the right to a fair trial. Stephen Byers, a Treasury minister, said last night that the streamlining of regulation would maintain the attractions of London for businesses. As a safeguard, the FSA will be ordered to "consult on the costs and benefits of regulations it wishes to introduce".

The government announced plans to create a new regulator shortly after its election victory last year. Its intention was to consolidate the fragmented system of oversight in the City.

The FSA was born out of the Securities and Investments Board, which principally monitors organised exchanges. Its name was changed a year ago and Howard Davies – former deputy governor of the Bank of England, the UK central bank – was appointed chairman. The Bank's powers for supervising the banking industry were passed to the FSA in June. The bill to be put before parliament will transfer many powers from other organisations.

This will give the super-regulator wide supervision powers in areas ranging from derivatives to personal investments and credit unions. The government may also include mortgage supervision and powers over general insurance sales.

The resulting FSA is likely to behave more like the US's powerful Securities and Exchange Commission than the array of regulators that preceded it. "The biggest difference for UK and foreign banks will be that they should be dealing with a single set of rules which must be to their benefit in simplifying the way they do business," says Peter Vipond, director of the British Bankers' Association.

Many companies complained under the old system that they had to answer the same questions from a number of regulators. Many financial services companies developed into one-stop shops over the past decade – selling everything from insurance to derivatives – but regulation had not kept up.

Ministers were also dissatisfied with the industry's handling of the pensions mis-selling scandal, which involved the sale of inappropriate personal pensions in the 1980's. The industry had been slow to compensate those affected by the £11bn ($18bn) debacle until the government started its campaign of "naming and shaming" the worst offenders.

Pensions mis-selling is cited by the City's critics as proof that allowing an industry to regulate itself does not work.

Self-regulation meant industry practitioners ran their own monitoring bodies.

But bankers hope the pendulum does not swing too far the other way, forcing companies in the wholesale market to adhere to the same tough rules as those with retail clients. "The heart of the debate is whether to regulate by rules or principles. The FSA will have both. But where the emphasis falls in the wholesale market is still very much to be decided," says Mr Vipond. Bankers are keen to preserve a more tailored, flexible regime as existed under the Bank of England.

60% of overseas investment agency to be sold

By Deborah Hargreaves in London

The government is expected to sell 60 per cent of the Commonwealth Development Corporation, but officials insisted yesterday that this did not constitute full privatisation.

The sale is part of government plans to turn the organisation – which invests in developing countries, chiefly in agribusiness and infrastructure projects – into a public-private partnership.

"It is a long-term partnership. If the government decides to reduce its holding below 25 per cent or surrender it's golden share it will have to go back to parliament," an official said.

The bill to sell the stake was put before the House of Lords, the unelected upper chamber of parliament, yesterday.

Proceeds from the sale, expected to exceed £500m ($830m), will go towards the 28 per cent increase in the budget received by the Department for International Development over the next three years. The budget will rise from £2.2bn to £3.8bn.

Officials said the CDC stake would come to market in the next couple of years. The corporation will first be turned into a registered company and will be listed on the London Stock Exchange. The government's advisers said a range of investors were interested.

The CDC invests £1.6bn in 54 developing countries, providing seed capital for businesses and then selling them to local people.

The government will insist on the company sticking to its guidelines on ethical investment, which prohibits investment in nuclear power, tobacco, illegal drugs or gambling. It also wants the company to be at the forefront of ethical practice in setting social and environmental standards.

NEWS DIGEST

EUROPEAN COMMISSION

Former HK governor makes pitch for top Brussels job

Chris Patten, a pro-European member of the opposition Conservative party, yesterday made clear he would be interested in becoming Britain's next European commissioner. Recent reports have linked him to the position – filled by the opposition – and he told a press lunch at the House of Commons he found it "an interesting idea". He added, in what appeared an invitation to Tony Blair, the prime minister, to make a formal approach: "If anyone would like to call me, they can." Mr Patten, an advocate of the single currency, is highly regarded by Mr Blair, who appointed him head of a commission on policing in Northern Ireland. He was the last UK governor of Hong Kong in the mid-1990s and a minister in Margaret Thatcher's government in the 1980s. **George Parker, London**

CHEMICALS INDUSTRY

Enron to buy ICI utilities group

Imperial Chemical Industries is to sell its utilities and services business in north-east England, to Enron, the US-owned energy group, for £300m ($498m). Enron will also acquire assets including pipeline corridors, tunnels, railway tracks and the ICI Wilton Power station. Enron has expanded rapidly throughout Europe since 1989 as energy markets have liberalised. It operates the £800m Teesside Power Station, the world's biggest privately-owned power station of its type. **Chris Tighe, Newcastle upon Tyne**

Lex, Page 16

HEREDITARY RIGHTS

Refrom bill may cause gridlock

The government may fail to get all its bills on to the statute book next year because of its determination to end the voting rights of aristocratic members of the House of Lords, members of the upper house of parliament by virtue of inherited titles. The opposition Conservatives are promising to oppose the bill affecting hereditary lords, which could result in parliamentary gridlock. But the first confrontation between the Conservative dominated Lords and the House of Commons is expected over the bill to change the voting system for next June's European parliament elections. The Lords rejected the bill five times in the last parliamentary session and the government had to abandon it. Jack Straw, the home secretary, is to reintroduce the bill in the Commons next week. Critics of the Lords say they rarely take their seats in the chamber except for ceremonial occasions when they wear traditional dress, which includes black tights and silver buckles. **Andrew Parker, London**

Employers urge half-point cut in interest rates

By Christopher Adams and Robert Chote

The Confederation of British Industry, the employer's lobby, yesterday called for another half point cut in interest rates next month, warning that confidence had sunk so low that the economy risked recession.

The CBI cut its forecast for economic growth in 1999 from 1.2 to 0.7 per cent and said output growth expectations among manufacturers remained at their lowest for seven years.

The call for a half-point cut was backed by the British Chambers of Commerce, which described it as "essential to keep recession off the agenda in 1999".

The monetary policy committee of the Bank of England, the UK central bank, meets each month to decide on rates. Willem Buiter, one of the independent experts on the committee, told the Treasury committee of the House of Commons that there had been no "significant news" to alter his view that rates should have been cut by three-quarters of a point this month, rather than the half point agreed.

The CBI growth forecast for this year is lower than the 1 per cent predicted by Gordon Brown, chancellor of the exchequer. But one official said Mr Brown "rounded up" the Treasury's forecast before publication.

Meanwhile, the CBI's latest survey of industrial trends, some of which was conducted before this month's interest rate cut, showed a big involuntary jump in stocks of finished goods. This suggests manufacturers may be forced to cut back production sharply as retailers choose to meet demand from the storeroom.

The CBI expects growth to bounce back in 2000 to 1.8 per cent, still more pessimistic than the government's 2.25 per cent estimate.

Fifty-three per cent of the 1,000 companies surveyed said orders were below normal, compared with 55 per cent in October. Exports orders, worn down by the strong pound, have recovered slightly.

Honda issues ultimatum to 'grey' importers

By John Griffiths in London

Honda, the UK motorcycle market leader, issued an ultimatum to unofficial dealers selling cheap "parallel imports" to cease trading by Monday or face legal action for alleged trademark infringement.

Dealers said they would fight any such action.

Honda's action is aimed at eliminating a trade which now accounts for 25 per cent of the 100,000 powered two-wheelers sold in the UK and which has cut £2,000 ($3,320)-£3,000 from the prices of the most expensive machines. If successful, it could thwart government plans to encourage imports of cheap cars from outside the EU by independent traders. Other categories of goods brought in by unofficial non-EU traders could also be affected.

Denton Hall, a law firm acting for Honda, told dealers to cease "grey" trading, disclose their sources – mainly Asia-based – and surrender all their stock.

The demands take the form of a *pro forma* letter which Honda is requiring the traders to submit by noon on Monday.

Jack Glover, principal of Granby Motors, the biggest of the five groups facing action, acknowledged last night that the dealers – all members of the Association of Parallel Importers – "have to take this very seriously".

But he rejected Honda's claims that such sales represented safety, security and servicing risks to their buyers. Honda claims that "at least some unauthorised motor traders are known, through investigative work undertaken on behalf of Honda UK, to disregard safety standards in any number of ways. These can include motorcycles being sold in crates, leaving buyers to assemble high-performance machines with only the aid of a handbook".

Mr Glover said: "We intend to fight this all the way."

Honda is invoking recent precedents set by EU rulings favouring trademark owners Levis jeans and Silhouette sunglasses.

NATWEST-FT EXPORT EXCELLENCE AWARD

N Ireland oil rig maker honoured

By Ian Hamilton Fazey in Manchester

Harland and Wolff, the Northern Ireland shipbuilder that became a leading constructor of deep-sea oil and gas rigs, has won the 1998 NatWest-FT Export Excellence Award.

The company was privatised nine years ago and has since won export business worth more than £200m ($332m). The judges – chaired by Ian Campbell, director-general of the Institute of Export – praised "its long-term vision and complete understanding of its markets". They added: "The company is driving innovation in the offshore drilling industry."

Harland and Wolff led the Northern Ireland and Scotland region, with the Scottish and Newcastle brewing company in second place.

The northern regional title went to Simon Jersey, of Accrington in north-west England. The family business makes working clothes for the catering industry and has promised its European distributors fixed prices in euros throughout 1999.

Runner-up in the north was Protector Technologies, which makes safety helmets, eyeshields and powered respirators in Skelmersdale, also in the north-west. To cut costs and mitigate the effects of the strong pound it closed production in Germany and trebled profitability over two years.

Christiani and Nielsen, of Leamington Spa in the English Midlands, a specialist in marine projects such as container terminals, won the Midlands, Wales and Anglia award. Warwick International Group, which supplies detergent manufacturers in 50 countries with additives for removing bacteria, came second.

The south of England award went to Allen and Heath, which makes audio mixing consoles at Penryn in the south-west. Research and development has enabled it to compete against Japanese manufacturers and export about 91 per cent of £7m annual turnover.

The south's runner-up was Denny's, of Leatherhead outside London, which makes clothing for the catering industry. It came close to winning the competition's other national award – for companies exporting for three years or less. The winner was Impact Development Training Group, of Windermere, northern England. It used to sell its management team-building adventure training courses only in the Lake District National Park but now runs them in more than 30 countries, with permanent bases in Japan, Thailand, Poland and Italy.

Derek Wanless, group chief executive of NatWest, presented the winners with training bursaries from Euler, the export credit risk insurer. Other sponsors are the Institute of Export, KPMG, the accountancy firm, and Overseas Trade Services, the UK government's export promotion office.

BUSINESS LUNCH MARK GOLDBERG

Living by his own goals

The multi-millionaire owner of a soccer club is determined to turn life's negatives into positives, finds Lucy Kellaway

My first glimpse of Mark Goldberg was from behind. A squat figure with slicked back hair in a long overcoat, he was being grasped to the bosom of another stocky man with a similar hair-do.

Once released from the clutches of the restaurant's *maître d'*, the 35-year-old multi-millionaire and owner of the London football club, Crystal Palace, turned to greet me.

"Nice meeting you," he said in a raspy south London voice, looking me straight in the eye – which was easy as we were almost the same height. Off came the coat to reveal a loud suit, braces and chunky gold ring – all of which hinted at his story: that of a local boy made (very) good.

But Mark Goldberg wanted to tell me his story himself. Indeed he had suggested the interview precisely for that purpose.

"I'm a bit of a simple man," he declared, sitting at the best table in this wildly expensive Italian restaurant in London's Belgravia.

"I always thought I'd be a professional footballer," he said, starting into his story without prompting. "I went out to America on a soccer scholarship. My biggest problem was that I didn't apply myself to my fitness in the way that I now apply myself to everything I do."

So, aged 20, he came back to the UK with no money, no hope of becoming a footballer and with no degree either. "My anger with myself spurred me on to make up for lost time. I'm inwardly very aggressive. I suffer inwardly. I can turn a negative into a positive and grow from it.

"Without getting philosophical," he went on in the same introspective vein, "what regrets I have I turn into learning opportunities."

Armed, then, with a learning opportunity, he walked into a job agency, was given a job in the agency itself, and six months later had quit to start up a company specialising in computer personnel.

"I didn't have the money to set up on my own, so I convinced my partner that there was no point in us *both* putting money in." He fixed his blue eyes on mine and pulled up half of his mouth in to a non-smile. The effect was slightly menacing.

"For me it wasn't a risk. I had confidence. So. Cut a long story short, I doubled turnover every year for six years. It went from £4.5m ($2.8m) in 1992 to nearly £200m this year."

That bit of the story was easy enough to tell. Harder was the next bit in which he sold his shares in the company, which by then was listed on the London Stock Exchange under the name of MSB International. When he

'See, I am not treating this as a hobby. This is a very serious business'

sold the shares had reached £10. Now, just a few months later, they are worth less than £2. How does he explain that?

He cleared his throat. "I've got to be very careful about what I say. But I will be 100 per cent honest."

He then explained that the City had a two-year time horizon and the shares had fallen because investors had started to wonder what might happen when the business guaranteed by the Millennium Bug started to fall off.

"I didn't think that ever again would I be able to take out £27m from this company as a reward for the effort I put in," he said, looking not in the least contrite.

When he got his money he proceeded to spend – some would say blow – most of it buying the football team he had supported all his life. Could it be, I asked, that love for the team which has dropped out of the Premier division, could be clouding his business judgment?

"See," he said shaking his head. "I am not treating this as a hobby. This is a very serious business. I would never do anything negative for the building of Crystal Palace just because of my passion. It wouldn't make sense for me."

But what about the fancy price he paid for the club? "The market value when I bought it was not £22.8m. But with the value of myself and my board we can turn that into £100m within five years. I have no doubt about that. No doubt."

Sounds ambitious, I ventured.

"I know it sounds big. But I am backing my confidence. It's a clearly defined plan. It is not just something I have made up."

He hinted at marketing spin-offs and internet deals that one day could make the world into staunch Crystal Palace supporters. "But let me tell you the £100m is not taking account of a penny from those plans. Not a penny! It's all on top!"

So far everything is going just great. "We bought 13 new players to the club for £4.9m! We've made £7m on players we have sold! *And* we've saved £800,000 on salaries! *And* the quality of the players has improved fivefold!"

He looked at my face which may have been expressing scepticism.

"Come and look at the books! I invite you in! I've got nothing to hide! If I'm just well enough healthwise we will achieve it."

Is he in poor health, then, I asked?

"Nah! I feel on top of the world. I go running every day. I just don't take anything for granted. Whatever God can control. I'm a big believer. I appreciate every day. I set myself targets for every day and don't go home until I've achieved them whatever time of night or day."

So what is his objective for today?

"Well. It's very specific so I wouldn't want to bore you with it."

Instead he told me all about his great relationship with the Palace manager Terry Venables, the ex-England manager.

"We respect each other. Totally. Terry Venables is the master of all masters. He is *the* authority on football. We're like brothers almost."

In passing I said something about Mr Goldberg's youth and mentioned that I was five years his senior.

"I would never have thought it. You look wonderful." He looked at the tape recorder. "You can use that."

I diverted the conversation to his other business interests: an internet company and a property development company that has bought a Grade One listed mansion in 400 acres of grounds with a view to turning it into a hotel and golf club. The locals initially went berserk at the thought of his involvement, but he claims to have won them round.

"All of these businesses have the potential of being valued in excess of £100m in five years time", he said, alighting on the same figure he had mentioned for Crystal Palace.

"But I never like to talk big. Personally I don't. I like to just perform and see what I can do."

A couple of days after our lunch there was a front page story in the newspapers questioning the transfer deals done by Terry Venables both at Crystal Palace and at his previous team.

I reached Mr Goldberg on his mobile. "It's an industry problem," he said cheerfully. "We're looking to make sure we have the right procedures."

An example, presumably, of him turning a negative into a positive and growing from it.

Goldberg: 'But I never like to talk big. I like to just perform and see what I can do' David Ahmed

TECHNOLOGY FINGERPRINTING

Innovation at your fingertips

Dinah Greek looks at an NEC system which could access a web page at the touch of a thumb

Making that vital phone call on the run could soon be much easier if trials by NEC on a fingerprint identification system for use on everyday items prove successful.

The Japanese electronics company's idea is to allow a user to assign to each of their fingers different codes and functions on products such as mobile phones or personal computers.

Researchers at NEC are already experimenting with what they claim is the world's smallest fingerprint scanner. Fingerprint identification is one area of biometrics, a science rapidly gaining acceptance as a means of combating crime and providing security in a variety of areas. Increasingly, it is seen as a replacement for security measures such as pin numbers and passwords.

The science works on the basis that we each have unique physical characteristics, which can be used to identify or verify claimed identities. Biometrics also encompasses iris recognition, voice recognition, retina patterns and palm prints.

Initially the NEC system was designed for security purposes, but studies showed that the technology could be applied to a variety of electronic equipment.

The scanner measures only 44mm by 34mm by 8mm. A fingerprint LSI (large scale integration) sensor creates an image of the fingerprint by scanning the ridge pattern of the finger as it touches the sensor. The algorithms enable identification of a fingerprint in less than a second, says NEC.

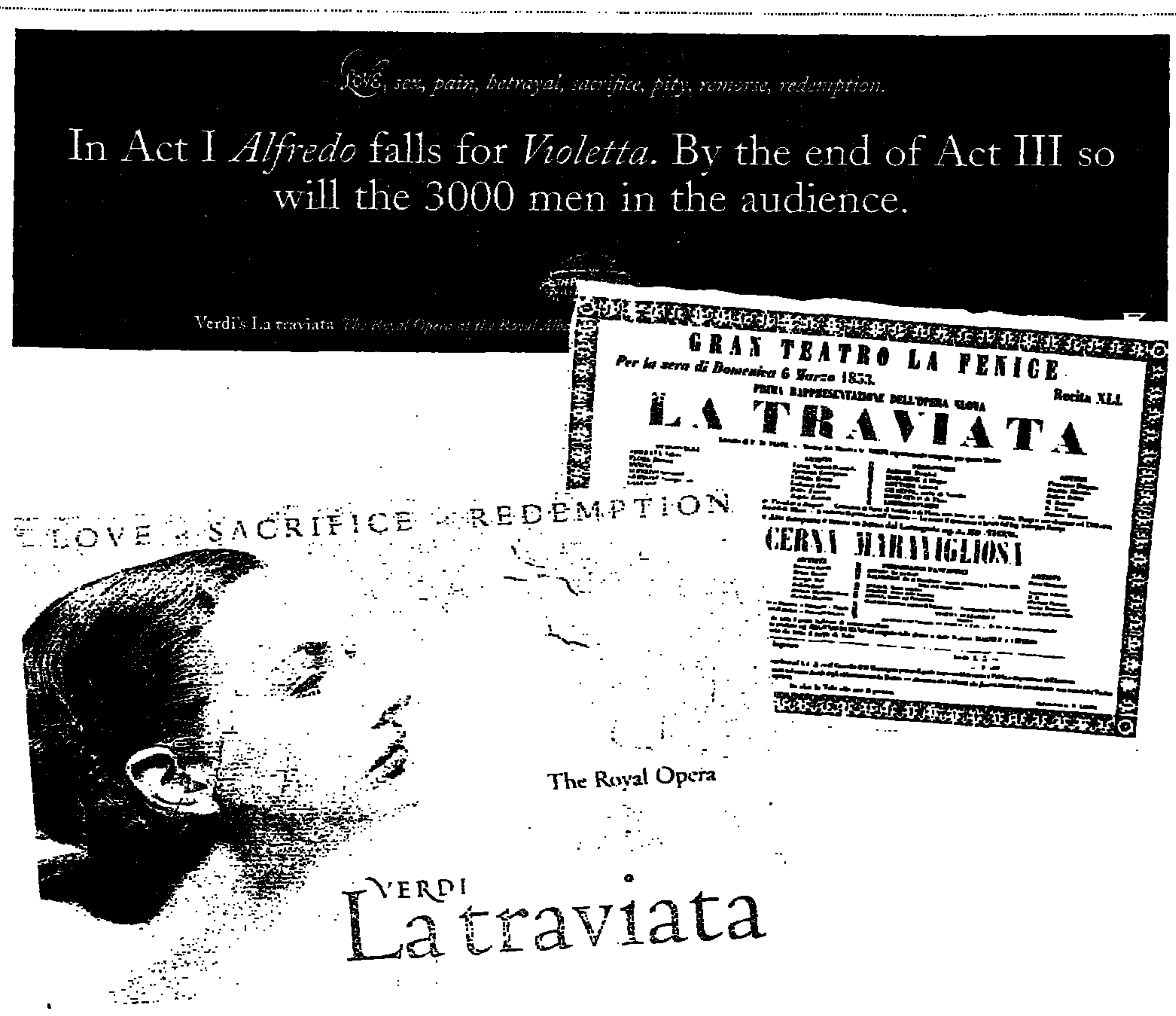
By simply pressing the correct finger against the scanner, users can carry out different functions. With a computer, the thumb could be used to open a file, or the index finger could access a favourite web page. Multiple users of a PC would have their own security codes.

The technology will also work over networks. This would obviate the need for different passwords and at the same time provide extra security for company intranets and extranets. It would provide easy access to functions on a mobile phone.

The system's accuracy depends on the database – the larger the better. It also depends greatly on the input from the user, which means the shape and size of finger does have a bearing on the system's accuracy.

NEC, Kaoru Uchida: e-mail kaoru@pat.cl.nec.co.jp

In the print: NEC's tiny scanner could enhance computer security



The changing face of La traviata: the slogan (top) drew in the punters where the delicate face of Violetta (bottom) had failed. In the centre, opera advertising as it used to be

The in-your-face approach

Antony Thorncroft on how a change of tack produced surprising results for the Royal Opera

Last summer the perennially oppressed Royal Opera House Covent Garden had yet another worry to add to a management hiatus, a deficit of many millions, and grumbling staff: sales of tickets for its performances of *La Traviata* at the Albert Hall were going badly.

Just seven weeks before the opening only 21 per cent of the seats were sold, a disaster for such a popular opera in such a large venue. Judy Grahame, who had just extended her role as public relations director to take over the marketing brief, decided on a change of tack.

Together with advertising agency Saatchi & Saatchi she switched the £50,000 set aside to promote performances by Domingo in *Parsifal* – "there was something very wrong if we had to advertise that one" – and asked the agency to come up with a harder-hitting approach than the original advertising, which featured a shot of a delicate Violetta and not much else. Such slogans as "If you are afraid to cry in public you'd better buy a box" and "In Act I Alfredo falls for Violetta. By the end of Act III so will the 3000 men in the audience" did the trick and ticket sales took off. By the finale *Traviata* was 89 per cent sold, well above target.

This experience followed hard on a similarly populist promotional exercise for *Cosi fan tutte* at the Shaftesbury. For contractual reasons the Armani suits worn by the cast in the original production could not be used again. Why not dress the singers in Marks and Spencer ready-mades and invite photographers to the fitting? Critics mocked but seats were sold. Perhaps careful, tailor-made marketing campaigns could solve the biggest challenge facing the arts: a paucity of audience.

Grahame left Covent Garden last month. This week she joined Saatchi & Saatchi to set up M&CSaatchi, the first serious attempt to bring marketing expertise to the arts. There have been individual consultants galore, all too anxious to give troubled arts organisations the benefit of their experience; there are a few specialist advertising agencies, such as DeWynters, that concentrate on promoting shows. But advertising agencies have traditionally avoided the arts because of their lack of expertise in an arcane and temperamental sector, and because arts companies can rarely afford them. To make communication even more hazardous, few arts organisations employ good in-house marketing professionals. Once again, the money is just not there.

By linking a top agency with one of the best-known communicators in the arts, M&CSaatchi has a lot going for it. Grahame has a good track record. She first came across Saatchi & Saatchi at the London Philharmonic Orchestra where she decided to drop the LPO's concerts from the listings and use the £60,000 saved on advertising. She also launched a subscription scheme, which gave an immediate boost to attendances. However, her switch to Covent Garden after she worked successfully for the Proms was less productive: there she came across powerful vested interests and her more tabloid approach was only grudgingly accepted.

There is an element of philanthropy involved. Charles Saatchi is the biggest British collector of contemporary art, while brother Maurice, now Lord Saatchi, is a keen amateur musician and sits on the boards of various arts institutions. But working with cultural clients gives young creative teams challenging accounts on which to chew, and there is always the chance of an eventual profit.

Grahame envisages handling up to a dozen clients. Two are already on board – a national orchestra seeking to improve its image, and a contemporary chamber orchestra keen to build audiences. Most assignments will be short-term, designed to cope with a specific problem. Fees start at around £10,000.

The new company faces a big challenge. Many British arts organisations lack the time, the management skills, and the money to push through significant changes in their marketing approaches. Past solutions, often American-inspired, such as subscription schemes, have had a short-term impact but little permanent effect. Most arts organisations are so dependent on subsidy that they inevitably look to the public purse for salvation.

But things are changing. Arts companies have more contact with business through sponsorship deals, which pump £100m into the arts each year, and the Association for Business Sponsorship of the Arts is now concentrating on how companies can support the arts with management skills, including marketing expertise, rather than money.

In addition both the government and the Arts Council are committed to bringing new audiences to the arts, and this is basically what Grahame preaches. Too many arts companies concentrate on their traditional supporters. Her aim is to widen the net, particularly among the young. She seems certain to have an immediate success, as far as approaches are concerned – big arts institutions are flocking to her. The arts are desperate for help. However, it is doubtful whether one small group of people can change a culture: making the arts more businesslike, and teaching business how to work with the arts, is a monumental challenge.

DANCE BALLETT FRANKFURT

Shape up to the movement

Clement Crisp has mixed feelings about William Forsythe's choreography

London's new Sadler's Wells Theatre has handsomely proved itself with this week's brief season by the Ballett Frankfurt. Here, on that splendid and expansive stage, lit with great subtlety, is one of the most intriguing of European dance troupes, and available at sensible prices. Given some subvention – the Wells does not have enough seats to offer visitors an ideal box-office reward from its realistic prices, which must be maintained – London need no longer be on the side-lines of dance activity. That a certain amount of tosh will inevitably lumber into town is inevitable, but there are significant dance overseas companies which ought to be seen here, and native troupes – Siobhan Davies springs to mind – whose work will flourish in these happy surroundings.

The Frankfurt company means, of course, William Forsythe. In the 20 years that I have been watching his dances, he has moved from the early and neo-classic *Flore subsimplici* (like Balanchine re-worked) by way of an expressionistic *Orpheus* of 1979 in Stuttgart (Edward Bond scenario; Henze music; huge dramatic impact which I recall to this day) to the long sequence of works, progressively more analytic about the nature and function of academic dance, which he has made on and with his Frankfurt dancers since 1984.

I say "on and with" since increasingly Forsythe seems to treat his dancers, and their movement response to him, as elements which he either inspires or adopts and adapts in the assemblage of his dance-pieces. His procedures are part collaboration, part creation. Forsythe has trained his dancers in certain attitudes towards movement, and their activities are essentially Forsythian in that they "think" as bodies in the way he has guided them. They are his material and his inspiration in a process of selection and assemblage.

The resultant dances are, for the most part, unlike the work which he mounts upon other companies. In his export pieces – *in the middle* or *Hermann Schmerman* or *Steptext* – the ferocities and strains and slithering contrivances of his style sit without too much difficulty on classically-trained bodies. The Frankfurt repertory is more forbidding, and brings with it some heavy intellectual luggage about the nature of movement and how it is generated, about time and dance, about light.

Forsythe wants to stimulate his audiences, and he wants them to think about what they see: about what light does; how a dance-phrase begins and ends; how figures respond and react with each other. It is not easy, and I find some of it is down-right costive and fiercely pretentious. But there are also splendid rewards, vivid theatrical ideas, and highly polished, highly-expressive dances.

This first London season brings three works dating from the last decade. *Hypothetical Stream*, which opens the evening, dates from last year and is Forsythe at his most cussed. The Wells stage seems a vast charcoal dead-end on which the dance wriggles and squirms bonelessly. Its pleasures are in the shape and shaping of movement, in watching an idea's progress and its varieties of speed and emphasis, the way in which the paint-stroke of action falls on our retinas. Its less than pleasures are in the sense of isolation generated by the dancers (and in the sight of certain block-like torsos).

The stage seems a vast charcoal dead-end on which the dance wriggles and squirms

Much more approachable is *Enemy in the Figure* of 10 years ago. A light source is moved over the stage. A curved wooden wall. Shadow. Illumination. Darkness. That very Forsythian penumbra which both masks and reveals. (Forsythe has a rare skill in creating gray light: the anxious *Slingerland* on which I reported some years ago was haunting because of this quality of light.) The dance is a bravura exercise in energy exploding, in bodies seen and not-seen, in movement that races and roars, in the ambiguities of perception in "now you see it; now you don't" fashion. It is immensely taxing, and brilliantly danced.

The final *Quintett* seems to be a contemplation on the idea of isolation and loneliness. The score is Gavin Bryars' *Jesus' Blood Never Failed Me Yet*, in which an ancient male voice sings a couple of lines from a hymn, and the composer provides an increasingly strong string accompaniment. Since this procedure is repeated for 25 minutes, both the words and music prove more than vexing. But Forsythe's oddly bleak yet emotionally dense movement worms its way into our feelings: the piece is desolate. It is admirably danced by its cast of five. This season is, I hope, an introduction. The Wells must bring back the Frankfurt Ballet for a longer visit.

At Sadler's Wells, London EC1. Corporate sponsors for this visit are headed by HOECHST, with sponsorship also from Commerzbank London; Deutsche Bank; Dresdner Kleinwort Benson; Helaba; Metallgesellschaft; Urenco.

HUDDERSFIELD FESTIVAL OF CONTEMPORARY MUSIC

Spain under the spotlight

It's hard to believe that the Huddersfield Festival of Contemporary Music is playing its 21st season, successful as ever. Richard Steinitz, now professor of music at Huddersfield University, invented this unique and unlikely festival: and thanks to his eclectic but discriminating tastes, he has kept it a revolving showcase for the best composers of all persuasions.

I heard most of last weekend's concerts (the festival continues till Sunday), and was duly dazzled. With a modest budget of his own, Steinitz winkles extra funding from his chosen composers' home countries – arts ministries and councils, that kind of thing – as well as from British organisations, to support first-class performances.

In the course of each year's festival, one composer after another is spotlit for a few days, and they are often present. The audience seems equally divided between music students from all over the country, Londoners with a professional interest, and local people with inquiring ears.

Among this year's spotlit composers are Elliott Carter, George Crumb, Michael Torke and the 68-year-old Luis de Pablo. The latter is a typical Steinitz find: hardly known in Britain, but eminently worth discovering. This Spanish composer has been through all the advanced fashions, from serialism to aleatorics; now he follows his own way, free-form but intricately polyphonic, whimsical and off-the-wall.

The London Sinfonietta played his *Book of Mirrors*, a suite of witty theatre-pieces to which guitar and mandolin lent pungency. Later the Nuove Sincronie ensemble offered a whole de Pablo programme: the intensely dramatic *Eros*, the bright, air-borne *Dibujos*, and best of all *Segunda Lectura* – a "second reading", for 10 players, of an earlier full-orchestra piece. It is long, brilliantly varied but cogent, and a pure delight to hear. The Sinfonietta should take it up.

The festival has long paid sympathetic attention to Simon Holt, whose Spanish leanings made him good company here. The Nash Ensemble revived his strikingly eerie *Sparrow Night* from 1989, and – with the mezzo Jean Rigby – his three fervent *Canciones* from 1986. But his new *Capriccio Spettrale*, written for the pianist Rolf Hind and the Sinfonietta, made the greatest impression. Essentially a piano nocturne which draws "spectral" echoes from the surrounding ensemble (among them a bass flute, heckelphone, mandolin and cimbalom); and eventually a short, fierce climax before it fades into silence. Every note seemed perfectly placed and telling.

Not so, sadly, in Holt's new opera *The Nightingale's to Blame* – his first – based on one of Lorca's stranger little plays, *The Love of Don Perlimplin for Belisa in his Garden*. By the final scene the music, conducted by Nicholas Kok, at last got a grip on itself, and us, with a charged atmosphere for poor old Don Perlimplin's ultimate sacrifice.

Too late, though. So much of what preceded was so slow, so devoid of forward impetus, so laden with elaborate melismata on single syllables of David Johnston's prosaic translation, that the action remained a flat charade. Besides Donald Maxwell's Perlimplin, Fiona Kimm, Patricia Rozario and Frances McCafferty did their best as his housekeeper, his faithless Belisa and her mother, but Martin Duncan's penny-plain, uninspired direction (for Opera North) gave them no help. The pair of Lurex-clad *duendes*, mocking spirits, were an embarrassing excrescence. Not a happy evening.

David Murray

INTERNATIONAL

Arts Guide

AMSTERDAM

EXHIBITION
Stedelijk Museum
Tel: 31-20-5732911
www.stedelijk.nl
Bill Viola, 25 Year Survey - A Video Journey: major survey of work by the American video artist. Includes more than 15 installations and 20 video tapes, as well as sketches and notes; to Nov 29

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
The Rake's Progress: by Stravinsky. Conducted by Reinbert de Leeuw in a staging by Peter Sellars. Cast includes Donald McIntyre, Thomas Randle and Willard White; Nov 29

CHICAGO

CONCERTS
Orchestra Hall
Tel: 1-312-294-3000
www.chicagosymphony.org
Chicago Symphony Orchestra: conducted by Pierre Boulez in the world premiere of Thomas's Orbital Beacons, and in works by Debussy. With the women of the Chicago Symphony Chorus conducted by Duain Wolfe; Nov 27, 28; Dec 1

COLOGNE

OPERA
Oper der Stadt
Tel: 221-221 8400
Die Vögel: first modern staging for Walter Braunfels's opera. Premiered in 1920, it was banned by the Nazis and largely forgotten until a recent recording. This production is conducted by Bruno Weill and staged by David Mouchtar-Samorai; Nov 27, Nov 30

DUSSELDORF

EXHIBITION
Kunstsammlung Nordhein-Westfalen
Tel: 0211- 83810
Max Ernst: Sculptures, Houses, Landscapes. An exhibition focusing upon the German Surrealist's lesser-known sculptures. Some paintings are displayed too, and the works span Ernst's career between 1913 and 1974; to Nov 28

EDINBURGH

EXHIBITION
Scottish National Portrait Gallery
Tel: 44-131-624 6200
Robin Gillanders: Little Sparta. Photographs of the painter Ian Hamilton Findlay's garden at Dunsyre in the Pentland Hills. Gillanders has been working there since 1993, and the display includes a range of collaborative works - posters, prints and postcards; to Nov 29

FRANKFURT

EXHIBITION
Schirn Kunsthalle
Tel: 49-69-299 8820
Alberto Giacometti: retrospective of work by the Swiss sculptor and painter. Also featuring prints and drawings, the exhibition charts Giacometti's artistic output from his early years in 1920s Paris to his death in 1966; to Jan 3

HELSINKI

DANCE
Finnish National Ballet
Tel: 358-9-403 021
Giselle: staging by Sylvie Guillem. With sets and costumes by Ramón B. Ivars. Conducted by David Garforth; Nov 26

OPERA
Finnish National Opera
Tel: 358-9-403 021
Anna Bolena: by Donizetti. Conducted by Maurizio Barbacini in a new staging by Jussi Tapola, with designs by Anna Kontek; Nov 27, 30

HUDDERSFIELD

CONCERTS
Huddersfield Contemporary Music Festival
Tel: 44-1484-430 528
● Elliott Carter 90th Birthday Tribute: works by Carter, including the European premiere of his Piano Quintet, performed by the Arditti String Quartet and pianist Ursula Oppens; St. Paul's Hall; Nov 27
● Steve Reich: programme of works including the UK premiere of Hindenburg, by Reich and video artist Beryl Korot. Performed by the Ensemble Bash, The Smith Quartet, Synergy, and keyboard players Clive Williamson and Shelagh Sutherland, conducted by Nicholas Kok; Nov 29

LONDON

EXHIBITION
Tate Gallery
Tel: 44-171-887 8000
Turner in the Alps: undertaken in 1802, this was J.M.W.Turner's first visit to continental Europe. The exhibition contains 68 works on paper, revealing the artist's initial impressions of the inspiring landscapes he encountered; to Feb 14

OPERA
English National Opera, London Coliseum
Tel: 44-171-632 8300
Boris Godunov: by Mussorgsky. Conducted by Paul Danielin a new staging by Francesca Zambello, with sets by Hildegard Bechtler. John Tomlinson sings the title role; Nov 27

MUNICH

CONCERTS
Philharmonie Gasteig
Tel: 49-89-5481 8181
● Kiri Te Kanawa: recital by the soprano, accompanied by pianist Julian Reynolds; Nov 29
● Sabine Meyer: in works for clarinet by Mozart, with the Camerata Academica des Mozarteums Salzburg conducted by Alexander Janiczek, and bassoon soloist Daniele Damiano; Nov 28

NEW YORK

EXHIBITIONS
Pierpont Morgan Library
Tel: 1-212-685 0008
Charles Dickens - A Christmas Carol: the manuscript of Dickens's novel is the centrepiece of this holiday exhibition. Also on view are several other items relating to the work; to Jan 3

Whitney Museum of American Art
Tel: 1-212-3272801
Mark Rothko: major retrospective of the American abstract artist, including loans from Europe and Japan. The 100 works on display encompass all phases of Rothko's career, from the late 1920s to 1970, with an emphasis placed on the so-called Surrealist and Classic periods; to Nov 29

OPERA
Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org
● La Bohème: by Puccini. Production by Franco Zeffirelli with a cast including Francesca Pedaci and Frank Lopardo. Julius Rudel conducts; Nov 28
● La Traviata: by Verdi. Production by Franco Zeffirelli with a cast including Patricia Racette and Marcelo Alvarez. James Levine is the conductor; Nov 27, 30

PARIS

EXHIBITION
Espace Electra
Tel: 33-1-4284 2360
Photographic Fictions; to Jan 1

OPERA
Opéra National de Paris, Opéra Bastille
Tel: 33-1-4473 1300
www.opera-de-paris.fr
The Merry Widow: by Franz Lehár. Conducted by Armin Jordan and with a cast including Frederica von Stade and Hakan Hagegard; Nov 27; Dec 1

SAN FRANCISCO

CONCERTS
Davies Symphony Hall
Tel: 1-415-864 6000
www.sfsymphony.org
San Francisco Symphony Orchestra: conducted by Michael Tilson Thomas in works by Haydn, Shostakovich and Brahms. With piano soloist Vladimir Feltsman; Nov 27, Nov 28

EXHIBITION
San Francisco Museum of Modern Art
www.sfmoma.org
Alexander Calder (1898-1976): around 250 works, among them some of the best examples of Calder's formally innovative sculpture. Alongside the mobiles and stabiles are selected paintings, drawings and jewellery, the intention being to present the breadth of the artist's career on the occasion of the centenary of his birth; to Dec 1

OPERA
San Francisco Opera, War Memorial Opera House
Tel: 1-415-864 3330
www.sfopera.com
Norma: by Bellini. Conducted by Patrick Summers in a staging by Andrew Sinclair, with sets by José Varona. The title role is sung by Carol Vaness; Nov 28

■ TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● **CNN International**
Monday to Friday, GMT:

06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

PHILIP STEPHENS

Ruling for humanity

The law lords' decision on Pinochet leaves the world a better place and challenges politicians to keep it that way

It is too much to expect that Augusto Pinochet will spend his final days languishing in a Spanish jail. The best we can hope is that he remains separated forever from a treasured collection of Napoleonic memorabilia in his Santiago home. So be it. Even if this most notorious of Latin America's former dictators spends his twilight years sipping tea with Margaret Thatcher, the ruling this week of Britain's highest court leaves the world a better place.

Three judges in the House of Lords have done what politicians and diplomats have always shrunk from. They have added teeth to the grand declarations affirming the universality of human rights which governments so casually sign and then so carelessly ignore. The judges have declared that some values transcend the arid technical disputes about legal jurisdictions and defy the cynical casuistry of political convenience. True, the law lords have raised questions as well as provided answers. But that too is something to celebrate.

I make the assumption here that Jack Straw, Britain's home secretary, will not exercise his discretion to overrule the Lords' judgment. Frustrating Spain's extradition proceedings at this point would leave a deep and indelible stain on the reputation of Tony Blair's government. Mr Straw is an intelligent man. He must realise that this is a moment for politicians to make way for judges.

It is worth mentioning that this saga is replete with delicious ironies. The country that now seeks to try a discredited dictator was ruled until 1975 by one Francisco Franco. Franco was the model (though he was never quite so cruel as his imitator) for General Pinochet's fascism. Post-Franco Spain now accuses its general's Chilean student of genocide, torture and terrorism.

Britain too has hitherto had a special place in General Pinochet's affections. It is not just the friendship with Lady Thatcher. He has long seen London as a place to acquire the gentility which he craves in old age. The old dictator likes the shops – Burberry and Fortnum & Mason are favourites. Twenty-five years ago Britain supplied the Hawker bombers with which his military junta destroyed Salvador Allende's presidential palace. Yet it is a British court which has now stripped him of all pretension to respectability.

Of course, it is heard said (not least from a British Conservative party which has inexplicably set itself up as the champion of hereditary peers at home and nasty dictators abroad) that the general is a frail old man. He helped the then Mrs Thatcher win the Falklands war against Argentina's military rulers. At 83, he has exchanged his trademark dark glasses and military uniform for pin-striped suits. Only slowly recovering from surgery, he is unlikely to outlive the protracted legal process that lies ahead. Compassion speaks for sending him home.

Wrong. There is no humanitarian consideration that can forgive the Pinochet regime its inhumanity. Those who speculate otherwise need only read a brief extract from the Spanish warrant calling for his extradition. Put aside the bald statistic of 3,000-plus civilians murdered. Forget that it was this regime that added the word "disappeared" to the grim lexicon of Latin American politics. Torture was the most treasured instrument of its terror.

Thus: "The most usual method was 'the grill' consisting of a metal table on which the victim was laid naked and his extremities tied and electrical shocks were applied to the lips, genitals, wounds or metal prosthesis ... boiling water was thrown on various detainees as a foretaste of the death they would later suffer." These ghastly descriptions go on and on. Relatives were placed in metal boxes one on top of the other, so the pain of each was inflicted also on the other. These were not isolated incidents. Torture was a thriving state industry. Such are the crimes of this old man.

We hear a second strand of opinion which says that it is for Chile to deal with its tyrants. Is not the general revered still by a sizeable chunk of the population? For all its cruelty did not his regime deliver prosperity? Even the disappeared, we are led to believe by these apologists, had personal pensions. And returned to democracy, surely Chile can decide for itself whether to forget if not forgive?

There is an inconvenient snag here. Chile's democracy exists on the sufferance of the military. General Pinochet is commander-in-chief emeritus. The army is immune from political interference. It sets its own budget. And it has rigged the constitution to make the amnesties granted to its murderers impregnable. The avowed trade-off between democracy and justice is an illusion. Chile has not been given a choice other than to deny its past.

But the satisfaction to be drawn from this week's ruling reaches far beyond the fate of General Pinochet. It breathes life into the United Nations conventions and declarations which have always promised but never succeeded in upholding the sanctity and dignity of human life. The court has demolished the doctrine of state immunity behind which the most evil dictators have sheltered. No one can exempt themselves from a few basic rules of civilised behaviour. The democratic politicians who condemn tyranny from afar will now be held to their words.

The logic behind the Nuremberg trials – that state immunity cannot apply to acts deemed criminal in international law – has been reaffirmed. For the court to have concluded otherwise would, as Lord Steyn remarked in an opinion as elegant as it was intelligent, have been to offer Hitler immunity for the Final Solution.

What is now promised is something the politicians have never been brave or honest enough to deliver: a system of legal jurisdiction that, at worst, confines violent dictators to their own countries and, at best, brings many more to justice. Robbed of refuges, some many even think twice about murdering and maiming their own people. We are unlikely to hear Alexander Lebed repeating his boast that he could be Russia's Pinochet.

There are wrinkles to be ironed out. Without an agreed international framework (the proposed new international criminal court is still mired in disputes), a system of justice built on national jurisdictions will throw up occasional contradictions and uncertainties. There are half a dozen former dictators who will have to check carefully with their lawyers before venturing abroad. Some may never be sure if they risk arrest.

Tant pis. It rests with the politicians to build a coherent international framework from this week's ruling. And an albeit uneven justice is infinitely better than letting murderers and torturers walk free. Remember that, Mr Straw.

LETTERS TO THE EDITOR

BTR has never been a 'one-man show' or a 'one-trick pony'

From Sir Owen Green.

Sir, One of my golden rules has been "never explain – never complain". But I fear I must break it in the interests of balance after the comment made by Tony Jackson on the BTR/Siebe merger ("One-man shows", November 24).

He chooses to shape his argument in "single issue" and crude terms: "BTR was built by one man ... on a single premise ... its skill was to buy ill-run companies ... in reality it relied on one tactic: pushing up prices ... The company turns out to be a one-trick pony".

The reputation of a company, whose UK workforce grew in size without any major problem during years of much industrial unrest, which won Queen's Awards for technology, and in which a shareholder's stake of £1,000 grew to £1m over 25 years, needs little protection from me. The record speaks for itself.

But the "one-man syndrome" misrepresents the role of leader and diminishes the contribution to BTR of many employees, several of whom have subsequently achieved distinction as business leaders in their own right.

The label "one-trick pony", raising product prices, caricatures one of the least understood yet most vital processes in an industrial business. In so doing, he derides the skills of buyers in all of the 70 or 80 countries in which BTR traded, in many different industries and in companies large and small.

Pricing a product involves many factors, some of which are susceptible to logic, but others need more intuitive resolution. Cost is only one, albeit very important, factor but most practitioners will agree that "cost-plus" is a simplistic and ultimately debilitating formula best relegated to fail-safe arrangements such as government contracts.

To underprice a product is to play a confidence trick. It is a betrayal of every interest: the inventiveness of the technicians, the skills of the workers, the acumen of the managers, the health of an industry, the trust of the investors and sometimes even the best interests of the nation.

Underpricing does not instantly reveal itself but will ultimately lead to bankruptcy.

Overpricing will be immediately apparent in the loss of the order and thereafter remediable.

We in BTR believed in assessing what a product was worth to the buyer, that being the fairest determination as between willing buyer and willing seller. While that belief may have introduced an unwelcome note of realism into some buying procedures, it ensured that BTR never knowingly undersold its products.

Is it reasonable to describe this process as a mere "trick", or as another example of BTR's then most prominent and precious commodity: commonsense!

Two years ago the younger Mr Jackson put forward a more constructive analysis of business conditions.

In an article entitled "A failure of managerial nerve" he posed the question of the endurability of the fashion for focus. Whatever one's view on this cult, his conclusion was incontrovertible: "However the pendulum swings, managers are left with the same basic obligations. Whenever possible, they must fix what is broken themselves; and they must extract value for their shareholders, instead of handing it on to somebody else."

The old BTR would applaud such a view, loud and long. But times change and styles of management, and views of commentators, move on.

Owen Green,
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Bank drive to risk is unsustainable

From Mr Keith Phair.

Sir, Peter Martin's observations on the role of banks ("A long goodbye", November 24th) could have been made more pointedly. Unless banks are prevented from position-taking, either by their shareholders or by regulators, they will continue to try to deploy their balance sheet to maximise absolute returns.

This is ultimately not a sustainable source of profits, since the capital made available by their ability to leverage will always tend to drive them towards risky assets which are vulnerable to step-changes in valuation.

Recent volatility in markets will therefore tend to get worse until the market begins to withdraw capital from such "banking" activity. Meanwhile, banks generally seem to be neglecting lower-return service businesses which nevertheless can generate sustainable income.

This problem is at its worst in wholesale markets. Shareholders, or regulators, should be pressing banks to be more transparent about the way they make money in their wholesale businesses. Most banks can make money in wholesale markets only by position-taking or by service provision to their customers; they should be forced to reveal which, in more detail. The quality of their earnings is crucial information, so that the market can discount them at the appropriate rate. The present obfuscation of their true underlying income sources is in no one's long-term interest.

Keith Phair,
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New welfare indicators no mere gimmick

From Ms Anita Pollack MEP.

Sir, Your editorial comment on the government's new economic indicators ("For the birds" November 24) misses the point entirely.

For years economists from many countries have been working to devise green accounting indicators to evaluate the relationship between the state, the environment and economic growth. The aim is to assist in making sounder judgments about sustainability.

Why measure birds rather than cats? It is widely acknowledged that because of the position of birds in the food chain, a sharp drop in the number of some species is an early indicator of serious damage to habitats and biodiversity caused, for instance, by overuse of pesticides.

Why air pollution rather than watching football? Because many thousands of people die or are admitted to hospital each year as a result of breathing polluted air which aggravates respiratory ailments. This human tragedy also costs the national health service a great deal of money. Avoiding it, therefore, would be useful.

These quality of life indicators should be seen as an important sign of the government's willingness to tackle the problems facing us today.

A society driven entirely on a cash and spend basis is incapable of developing policies to tackle the present situation that results from humankind exploiting the planet beyond its capacity to replenish itself.

This step will enable policy to be driven by reality rather than simply numbers. Definitely more than a gimmick.

Anita Pollack,
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Rebels in cyberspace

The links between AOL, Netscape and Sun Microsystems are all about doing battle with Microsoft over electronic commerce, say **Louise Kehoe** and **Roger Taylor**

When Steve Case, chief executive of America Online, and James Barksdale, head of Netscape Communications, first exchanged e-mails three years ago, they adopted the *noms de guerre* "Franklin D" and "Stalin". Like the second world war leaders, they planned to join forces to fight a common enemy: Microsoft.

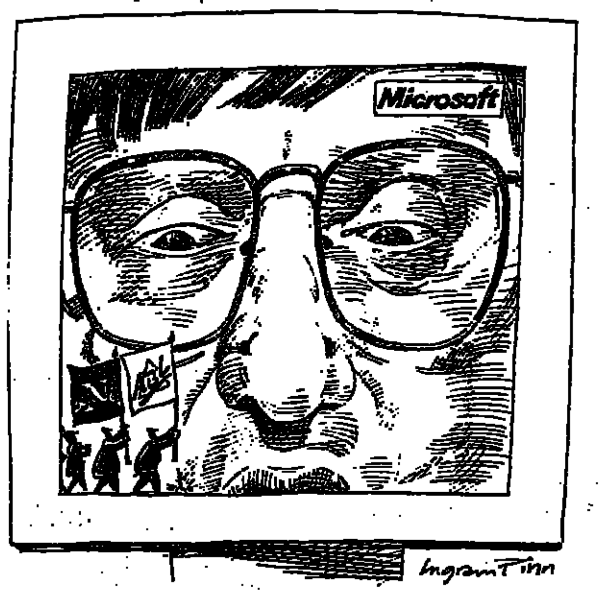
This week, Franklin D and Stalin finally agreed to combine their armies. AOL, the world's leading online services and internet access company, is acquiring Netscape, the pioneer of internet software, in a stock swap valued at $4.2bn (£2.5). Sun Microsystems, the Silicon Valley computer maker, is also entering the alliance as a technology and marketing partner.

It could cause, Microsoft said, a "seismic shift" in the internet landscape. The combination of AOL's broad reach to consumers, Netscape's software for electronic commerce and Sun's technology, is the most credible challenge yet to Microsoft's vast firepower in the battle for cyberspace.

Sun's Java technology allows programmers to create applications that run on all types of computers; Netscape has created an internet browser. The alliance of the two could displace Microsoft's Windows on the next generation of computing devices.

No wonder, then, that the trio has been dubbed "the rebel alliance". What began as a defensive move to stave off Microsoft's incursion into online services and internet browsers has turned into in a partnership with much broader goals.

The ultimate target in this high-stakes, high-technology battle is control over the distribution channels for electronic commerce: the software, services and web sites that bring together buyers and sellers.



For once, however, Microsoft appeared to welcome the challenge posed by its competitors.

One month into the US government's antitrust trial against the world's largest software company, Microsoft's motives were obvious.

Even before the alliance was officially announced, its lawyers were staging a press conference in Washington. This was "a new day for consumers of operating systems, web browsers, web portal sites, internet service technology and electronic commerce", they said.

The AOL-Netscape-Sun deal, Microsoft's lawyers declared, showed competition was alive and well in the high-tech sector. The government should leave well alone.

Seldom have Microsoft officials been so appreciative of their competitors. But it would be difficult to imagine a similar response if Microsoft were not on trial.

Electronic commerce, analysts predict, is on the brink of take-off, and AOL is the frontrunner, with more than 14m subscribers to its members-only online services and the busiest web site on the internet. It has the biggest shopping mall in cyberspace, with more than 400 electronic stores, and the lion's share of online advertising revenues.

This Christmas, internet shoppers are expected to spend $2.3bn online, compared with $1.1bn during last year's festive season. Beyond this, projections for exponential growth of electronic commerce range from around $400bn in 2002, to as much as $2,500bn by the end of the next decade.

As for Netscape, the commercial pioneer of web browsing software, its greatest asset may be its name. To many users, the company is synonymous with the internet, even though it had to begin giving away its browser, free of charge, a year ago, in a last stand against Microsoft, which built its own browser into its Windows operating system.

Netscape also produces business software for building web sites and, in particular, for e-commerce applications. And it has an internet "portal" web site, called *Netcenter*, which functions as a gateway and as a link to many internet services and which, for AOL, represents a foothold in the business world.

By combing the two companies, AOL hopes to draw many new companies on to its online services by offering a "one-stop shop" for "bricks and mortar" merchants that want to launch electronic stores.

About 70 per cent of all internet users are either members of AOL, or users of the Netscape browser. Analysts estimate the combined group could command as much as one-third of the fast-expanding advertising revenues on the internet.

Sun Microsystems could also play an important role. In addition to marketing Netscape's business software, it wants to help develop the programs that will allow internet access from pocket-sized gadgets such as "smart" cellular phones and other new types of "communicators".

But for the moment, Microsoft still has the upper hand.

With its dominant Windows operating system, used by more than 90 per cent of the world's personal computers, it controls the images that appear when hundreds of millions of computers are switched on every day. This is the most valuable real estate in cyberspace: the prime location in what may become the world's biggest shopping mall.

So for the moment, not even AOL can dispense with Microsoft. Despite its acquisition of Netscape, AOL plans to continue a controversial exclusive agreement to distribute Microsoft's internet browser software in return for prominent display of its logo on the Windows desktop.

Even Netscape's Mr Barksdale, who testified against Microsoft in the antitrust trail, has sounded a cautious note.

The AOL-Netscape deal was about meeting new market opportunities, he said, not about ganging up against Microsoft.

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Welcome back Standard Oil

John D. Rockefeller would smile in his grave. His mighty oil empire, forcibly dismembered on May 15 1911, may be on the point of partial resurrection.

Merger talks between Exxon and Mobil, two descendants of Standard, could once again create an oil giant to tower over its competitors. Exxon is already the largest in market capitalisation. It could grow by about a quarter on this measure and more than a half in oil and gas production.

Even at this size, the new industry leader would not come near the dominance of Standard, which accounted for more than 80 per cent of the US petroleum products market in the 1890s. But a merger on this scale would raise serious antitrust anxieties. It is true that the new group would continue to face a strong challenge from the other two groups in the super-league, Royal Dutch/Shell and BP Amoco, which offer strong competition in exploration and production.

Even so, there are two grounds for anxiety. The first is the potential concentration of power in specific markets, mainly in refining and marketing. On the east coast of the US, in east Asia and in Europe (where Mobil has combined its downstream activities with BP's), the new behemoth would almost certainly be required to make divestitures.

Broader anxieties arise from the impact of this deal on the emerging structure of the industry. The proposed merger, like that recently consummated by BP and Amoco, springs from an industry-wide movement to cut costs in response to depressed oil prices – now lower in real terms than for a quarter of a century.

After impressive efficiency gains, particularly in exploration and production, the industry is left with two main areas for cost cutting: administration and refining and marketing. Both create pressures for consolidation. Clearly one head office is cheaper than two. And according to some industry estimates, an Exxon/Mobil could save up to $3bn a year on manpower – in theory at least.

The second set of economies for the industry stems from rationalising refineries and distribution costs. To achieve this, an oil company needs a critical size, of perhaps $100bn total annual sales. By this criterion, Mobil, along with Chevron, Texaco, Elf and Total are too small. But Exxon is easily large enough, and indeed, highly efficient. Why, then, should it want to become even larger?

Perhaps it sees further competitive advantage in becoming bigger than the biggest; or it may be trying to pre-empt the formation of another large competitor, for example Mobil/Chevron. In either case, what is good for Exxon is not necessarily good for the US, nor for global competition. The authorities must be prepared to scrutinise any deal with the sharpest scepticism.

Russian debt

After months of negotiations, the rescheduling of Russia's domestic debt is near completion. Some foreign creditors remain unhappy with the terms. The dwindling Russian state, though, cannot make a more generous offer.

The domestic debt (GKO) restructuring deal is indeed highly punitive, with repayments worth only 4 cents in the dollar. But GKOs, with their soaring interest rates, were clearly a speculative bet. With Russian government revenues falling fast, and the economy plunging into recession, few investors could realistically have expected to get much money back. The banks left holding the now almost worthless GKOs will have to take full account of their losses: at least moral hazard will no longer be such a worry.

Unfortunately, Russia's debt problem extends far wider than the GKO market. Russian sovereign external debt amounts to some $150bn. Next year $17bn of repayments will become due. Compare this with October's tax take of just $750m. If continued, this would imply annual revenues of only $9bn. Russia's tax collection, always poor, has reached a disastrous level. Foreign exchange reserves of $13bn will not be much help.

The government has already requested the restructuring of $90bn of Soviet-era debt, including a two-year payments pause. This would reduce its repayments next year to around $8bn. But even this target could be difficult to reach.

Failing to meet its post-1992 obligations would mean either a default on Russia's eurobonds or on its IMF debt – both of which are deeply unattractive options. Russia will need the support of the IMF, to whom around $5bn of next year's debt repayments are due. This support will not come, though, until the government puts forward a credible economic programme. It will certainly not come if Russia falls into arrears.

Meanwhile, $6bn-$7bn of forward contracts owed by Russian banks remain unpaid, and with the debt moratorium now expired, foreign creditors are moving in. This is not directly a Russian government problem, but could become one, if the government feels obliged to step in to rescue failing banks, or if creditors can prove the moratorium was illegal.

If Russia is to retain even a scrap of creditworthiness, it should honour its most recent debts. This will be no easy task. Russia's pre-Soviet creditors should be prepared to be generous in their restructuring terms; and Russia itself should make every effort to fulfil the IMF's demands, and to improve its disastrous tax collection. The alternative is a slide into even deeper economic chaos.

A sorry state

Japan's difficulty in coming to terms with its second world war record still dogs its international relations. If it is to pull its proper weight in the world, it cannot afford to let this continue.

This week the problem has surfaced in two separate ways: a court decision in Tokyo not to pay additional compensation to British former prisoners of war, and, more seriously, Japan's refusal to extend a written apology to China for atrocities committed during the war.

For all the sufferings of the POW's, the compensation issue is a difficult one, since Japan's case rests on an agreement between all sides at the end of the war. But Japan would have much to gain, even with the POWs, through a properly worded apology, using language which recognises guilt as well as regret.

Its position on China is all the more curious in that Japan did make a written apology to South Korea when President Kim Dae-jung visited last month. Japan's relationship with China is still more important than that with Korea. Yet its intransigence is making President Jiang Zemin's rare visit to Tokyo a missed opportunity to clear the air.

Admittedly the relationship is difficult. China has become much more assertive on the world stage of late. It is keen to vie with Japan for influence, not only with other Asian countries, but also with the US. It harbours great suspicions about Japan's military alliance with the US and about Japan's natural affinity with Taiwan, which was once a Japanese colony.

But these problems could be addressed more easily without the backdrop of arguments over history. A stable bilateral relationship is also crucial to broader security in the Pacific region where long-term peace depends on a delicate balance of influence between Japan, China and the US. In that triangular relationship the Sino-Japanese leg is easily the weakest. Japanese officials know this. They say they want to strengthen it. Yet Japan continually prevaricates on the one issue which could really secure an improvement – the need to explate the past.

The political price for doing so is growing smaller as the war recedes into history. It is far outweighed by the benefits of a more constructive, open relationship with China.

Together with their hesitant approach to economic and banking reform, the failure of Japanese political leaders to face down their small but vocal nationalist lobby thus reveals a basic weakness. Their inability to take proper charge at home is a damaging constraint on their country's relations with the outside world.

Rockefeller revived . . .

Robert Corzine investigates why the world's biggest oil companies are eyeing each other's assets

In the world of the seven sisters, it is marry or die. The merger talks between Exxon (market capitalisation: $175bn) and Mobil (market cap: $60bn) suggest that nowadays, $100bn is more or less the minimum size for an oil major.

That was also the message of August's merger of British Petroleum and Amoco. BP-Amoco and Royal Dutch/Shell are now the only oil companies with revenues over that amount (see chart). If Exxon takes over Mobil, the combined company would join that select group.

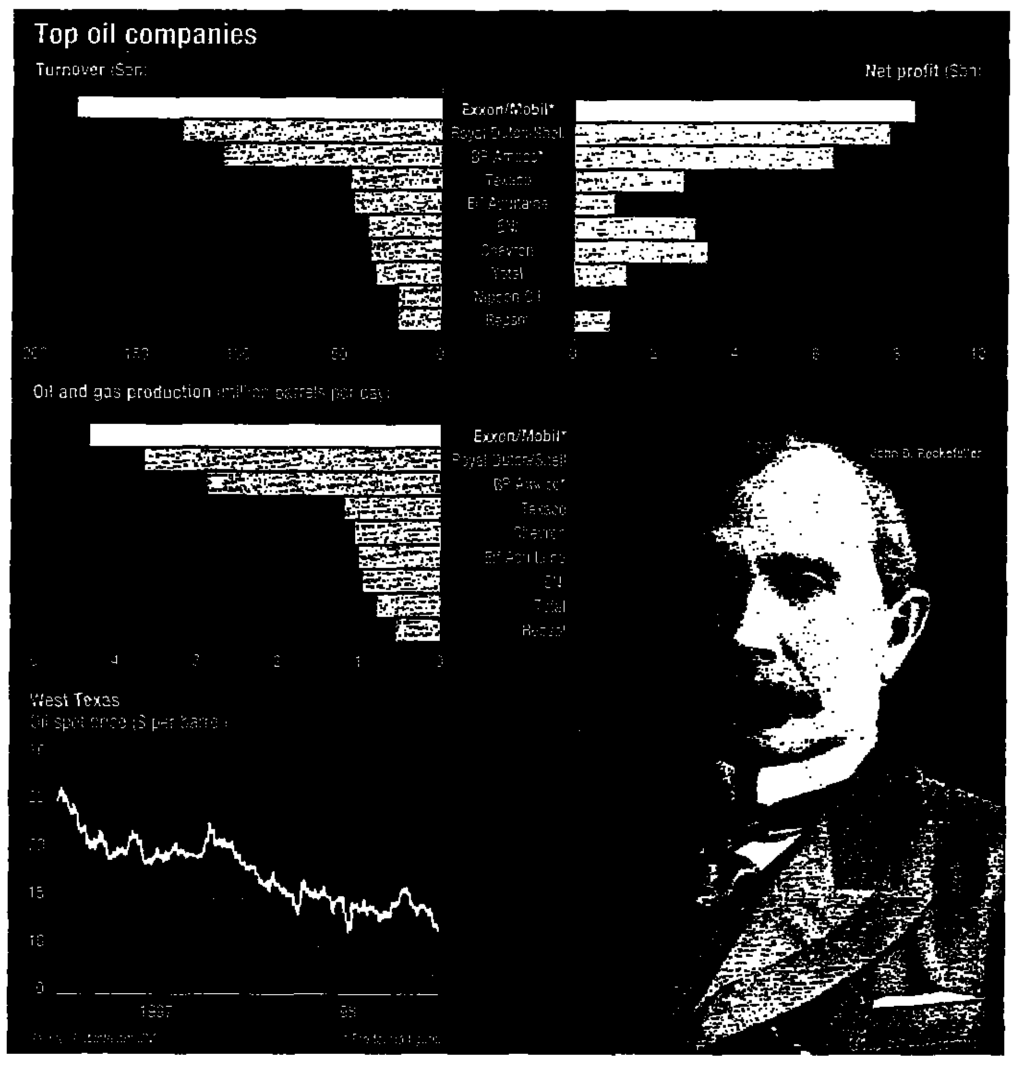
And other oil companies would be left as candidates for merger or takeover. Total and Elf Aquitaine could be forced together in France; Chevron, Texaco, Arco and Conoco might be in play in the US. The seven sisters – the western world's big integrated petroleum companies – are becoming, it seems, three or four much-married dowagers.

"It's really a question of weight of funds," says one investment banker familiar with the Exxon-Mobile talks. "Why should investors put a cent in second-tier companies when the merged companies at the top have the potential to outperform for years to come because they can cut more costs?"

Three forces have combined to put a premium on size in the oil industry. The first is the exponential growth in the cost of petroleum refining and production. Refineries have to be about 10 times the size they were in the 1970s in order to make money. A large part of that rise is the increased cost of meeting higher quality and environmental standards.

More expensive plants require bigger companies to raise the money to build and maintain them. Even more important, because transport costs are high, a large production facility will be economic only if the company is big enough to be able to sell its output within a reasonable radius of the plant. This sometimes means one company can be dominant in a local market – and this would be at the heart of antitrust questions that would arise if Exxon and Mobil do propose to merge (see below).

The second reason why there is a premium on gigantism is that large companies are able to spread the cost of risk more easily. Oil companies have traditionally operated in countries with high political risk factors (such as Shell in Nigeria). But the risks appear to have risen recently: witness the turmoil in Russia and Indonesia, both substantial oil producers. The larger the company, the wider its spread of assets and the easier it is to offset risky prospects with safer ones.



The third reason is the falling price of black gold. For years, high oil prices provided a cushion for producers: profits from oil extraction meant that companies could subsidise struggling activities in other parts of the business out of production profits.

But now the price of benchmark crude oil is down below $11 a barrel, having fallen by more than one-third in a year. As Roger Diwan of Washington DC-based Petroleum Finance notes, the wholesale cost of a gallon of gasoline from Saudi crude costs less in the US than a 12 ounce serving of Coca-Cola, even with taxes and transport costs added on. Suddenly, it is not possible to cross-subsidise, so costs have to be squeezed wherever they can.

Huge savings can be made through mergers. BP/Amoco has set what many see as a conservative target of $2bn a year in annual cost savings, and analysts estimate that, if Exxon and Mobil link up, they should be able to reduce combined costs by perhaps $4bn a year.

The ability to generate such savings is especially important if oil prices stay low. Philip Lambert, an investment banker with Dresdner Kleinwort Benson in London, believes it is no coincidence that the Exxon/Mobil talks coincide with oil prices at 12-year lows. He says future consolidation will be mainly driven by fears that there may be no early return to the $15-$20 a barrel range in which oil prices have traded for most of the past 10 years.

"There is no need to lose your independence at $15 a barrel," he says. "But at $10 there is. At that price cutting costs within a single company can no longer guarantee survival. You need to restructure." An Exxon/Mobil deal would be compelling evidence that the directors of Mobil may have made just such a calculation.

Until recently, many thought there would soon be a rise in the oil price that would make such hard decisions unnecessary. Conventional wisdom held that oil prices had been driven down mainly by temporary factors, such as unusually warm winters, the collapse of demand in Asia, and and the sale of increasing amounts of Iraqi crude. By implication, prices would pick up.

But this week, the Organisation of Petroleum Exporting Countries again failed to agree on new production cuts to push prices up, even though the decline in Opec's collective oil revenues has been of the order of $50bn or so this year. That has given support to those who believe that a fundamental shift may be under way in the industry, and that corporate consolidation is a sign of the seven sisters preparing for a new era.

Mark Moody-Stuart, chairman of Royal Dutch/Shell, recently talked about the irrational structure of the global oil industry: the world's most plentiful and lowest-cost reserves, especially those in Saudi Arabia, stay in the ground while the western companies go to the remotest corners of the globe to tap the most expensive crude.

There are many who believe that the continued low oil prices will change this irrational system, driving oil companies out of high-cost areas and persuading the big, cheap producers in the Gulf and elsewhere to turn on the taps – leading to prolonged, even permanent, low oil prices.

"It's inevitable that the rent component in the oil price will evaporate," says Luis Giuste, the head of Petroleos de Venezuela, and the man who orchestrated that country's opening of its oil sector to billions of dollars in foreign investment. "You'll never be able to control the oil price over the long-term."

Other Opec producers are set to follow Venezuela's lead by opening up. Iran is currently reviewing bids for dozens of foreign-financed oil development projects, while Kuwait is considering expanding service agreements with western companies. Iraq, which has the world's second largest reserves, has already negotiated detailed contracts with a number of international oil companies for when sanctions are eventually lifted. Even Saudi Arabia, the world's biggest crude producer and exporter, has hinted at a possible opening of its upstream sector to direct foreign involvement.

That is where the big oil companies step in. Mr Moody-Stuart at Shell says he expects to see new relationships developing between big state oil companies and their western counterparts.

The bargain will be that in exchange for capital, technology and management expertise, western oil companies will get access to vast, low-cost oil reserves for long periods of time.

And, as one investment banker notes, their preferred partners are likely to be those companies which not only have the size and range of expertise to offer comprehensive services but which are also viewed by the investment community as dynamic and top financial performers.

"Who would you want to deal with if you were a national oil company?" the banker asked. "A BP Amoco, or a company that is seen as dead in the water?"

. . . trustbusters permitting

Richard Wolffe and **Emma Tucker** consider the antitrust issues that would be raised by any Exxon-Mobil deal

At a time when antitrust enforcement is being challenged by new industries and technologies, the proposed merger between Exxon and Mobil is rich in historical irony. The two are former siblings, the largest descendants of John D. Rockefeller's Standard Oil Company of New Jersey, the first US trust. Standard Oil was also the first antitrust target of Teddy Roosevelt's administration.

In 1911, the US Supreme Court found the company guilty of restraining trade, and eventually, the Rockefeller empire was broken into 33 companies.

Today, consolidation in the oil industry appears to be undoing much of the Supreme Court's historic work. But it is not the only industry to be challenging the antitrust spirit of the early part of this century. The break-up of the AT&T telephone monopoly in 1984 has been substantially reversed by recent mergers in the telecommunications industry, such as the proposed unions between SBC Communications and Ameritech, and Bell Atlantic and GTE.

The likely approval of these controversial mergers are indicative of a new thinking in antitrust enforcement. Mergers are no longer blocked on the grounds that "big is bad".

Joel Klein, the head of the antitrust division at the US justice department, and Microsoft's pursuer in another landmark antitrust trial, courted controversy by waving through the $23bn merger of Bell Atlantic and Nynex last year. His counterparts at the Federal Trade Commission made a similarly surprising decision to approve the merger between Boeing and McDonnell Douglas, despite opposition from the European Commission.

As a result, any Exxon/Mobil deal would be scrutinised not for its absolute size, but in terms of the geographic and product markets the combined company was likely to dominate.

That is where the headache will start. The FTC, already overstretched by the recent spate of mergers, has yet to complete its analysis of the merger announced between BP and Amoco in August. The breadth of an Exxon/Mobil deal would require even more detailed research. Based on their recent decisions, however, FTC officials could be expected to request specific divestitures where there are overlaps between the two oil giants, rather than blocking the overall merger.

The European Union is also likely to want to examine any Exxon-Mobil deal, meaning that EU competition authorities will have to work alongside their US counterparts again. In the past, co-operation has produced mixed results.

During the Boeing-McDonnell Douglas dispute the two sides came to blows after Karel Van Miert, the EU competition commissioner, threatened to block the deal unless Boeing made substantial changes to it.

Since then, communication has been more harmonious, EU officials say. Oil could now trouble the waters again.

OBSERVER

Exxon marks the spot

To say that a merged Exxon-Mobil would be big is like saying that the ocean is wet. But however vast the world's biggest energy company, will there be room for both Lee Raymond and Lou Noto?

They're both domineering personalities, the kind of big figures the oil industry seems good at producing, and used to calling the shots. Compatibility counts. One reason the BP-Mobil European joint venture didn't lead to a perfect union a couple of years back seems to have been the failure to make shipmates out of Mobil boss Noto and BP chief Sir John Browne.

Indeed, the BP-Amoco marriage may give the oil world's latest courting couple a few pointers towards getting a good send-off on honeymoon. Investors liked the way the top rank of BP Amoco executives was all sorted out when the engagement was announced. And the older boss of the smaller company – Amoco's Larry Fuller – made it clear that he'd head off into retirement in 2000.

Exxon is so much bigger than Mobil that the deal will be called a merger only to save face and tax, so Exxon's Raymond – a chemical engineer from South Dakota – should end up steering the brand new supertanker. What role, then, for Noto?

At 60, the Brooklyn-born son of a Sicilian union organiser in the Big Apple's garment industry is a few years older than Raymond. So he may follow Fuller's example, taking more time to enjoy golf, classy cars, his abstract art collection, and the writings of gritty heavyweight author Joyce Carol Oates.

Neither Raymond nor Noto has much time for fads – Exxon doesn't hire consultants, while Noto eschews reading management theory – so don't expect any radical departures when it comes to the new company name. It certainly won't be Standard Oil.

Swedish, natch

In egalitarian Sweden, VIP status can cut remarkably little ice, or so Carl Bildt has discovered. The former premier's traditional invitation to Stockholm's sumptuous annual Nobel Prize banquet has failed to drop into his mailbox.

Prime minister Göran Persson and four of his cabinet are dusting off their evening dress for next month's beanfeast, but there's no room for opposition figures like former Bosnian peace envoy Bildt, now leader of the main Moderate party.

The Nobel Foundation says demand from Nobel laureates' families and those who award the prizes means there isn't room for everyone in the 1,300-seat banqueting hall.

Maybe so, but some of the demand must be fuelled by the prospect of rubbing shoulders with international figures, like Sweden's best-known politician.

The story reminds Observer of the occasion, just after World War II, when a top US officer in Germany demanded a seat on a plane to Berlin, pleading urgent military business. A civilian was duly bounced off the flight. When the officer reached Berlin, he was disappointed to find that his "urgent business", a lecture by Thomas Mann, had been cancelled. The organisers explained apologetically that the Nobel prize-winning author had been bumped off his plane by an American brass hat.

Good works

The Hong Kong Society for the Promotion of Virtue is in a spot of bother – it's being sued by an architect for "breaking a promise" by failing to pay for work carried out on a monastery. Times are devilish tough, even for moral crusaders.

Pass marked

There has been a hitch with registering voters for next year's elections in South Africa, the second all-race poll in the country's history and the first involving a proper list of voters.

The Independent Electoral Commission wants the 25m electors to register using modern, bar-coded identity cards. That's fine by the black majority – they snapped up the new cards by the million as soon as apartheid ended, and made bonfires of the old restrictive passes.

But many whites held on to documents that reminded them of the days when they called the shots, and now the National Party is seeking a court ruling that people can use old-style papers to register.

The party says up to 5m South Africans lack the new IDs: civil servants say the number is in the hundreds of thousands. Whatever the truth, many people around Pretoria are enjoying the sight of the National Party, which developed and ran the apartheid system, leading the fight for universal suffrage.

Going overboard

Carnival Cruise Lines in Miami has been spelling out the rules for everyone who walks the decks of the brand new pride of its fleet, the Paradise. She's the world's first no-smoking cruise ship. Even the Finns who built her weren't allowed to smoke at work. Cruise director Larry Garluzzo says any passenger – sorry, "guest" – caught puffing "will disembark at the next port of call". Tough talk, but it sounds worse for the crew: any of them caught killing themselves slowly will be "terminated immediately". Watch out for that gangplank.

The Financial Times 50 years ago

$250,000,000 For France
Paris, Nov 26. The French Minister of Finance has been authorised to contract several loans to the amount of $250 millions from the Export-Import Bank of Washington under the stipulations laid down by the bilateral Franco-American Agreement on Economic Co-operation, the French Official Journal announced to-day. The sum borrowed will correspond to the amount of American aid approved as a loan to France for the fiscal period beginning on the 3rd of April this year.

Netherlands Difficulties
Amsterdam, Nov 26. In the lower Chamber to-day, the Netherlands Minister of Economic Affairs, Mr. Van den Brink, stated that the economic situation of the Netherlands still displayed many critical aspects. The alarming foreign exchange problem had only partly been solved by American help, he said. Labour productivity, at 90 per cent of pre-war in industry and agriculture, was too low. Industrial equipment was in many places obsolete. The brighter side of the picture was low unemployment and industrial peace.

FINANCIAL TIMES
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THE LEX COLUMN

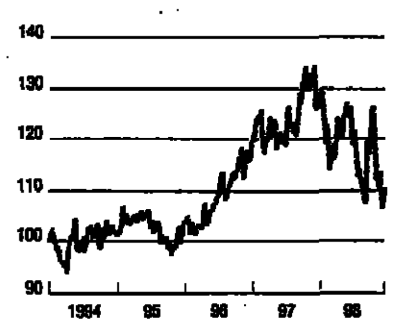
Deal delirium

Deals generate deals which generate deals. Had British Petroleum not bid for Amoco, Exxon would probably not now be moving in on Mobil. And in the absence of both deals, Royal Dutch/Shell and Europe's mini-majors would not now be feeling so anxious. To judge from the share price rises at Elf, Total, Eni and Repsol, copycat deals are keenly awaited. Should shareholders be happy?

In a deteriorating oil price environment – yesterday's Opec meeting failed even to extend the current production-restraint agreement – cost-cutting is essential. Doubts linger over whether mergers are really necessary to achieve these savings. But the prospect of Exxon/Mobil and BP/Amoco taking billions of dollars off their cost bases – raising the game in already competitive refining and chemicals markets – is alarming.

The danger is that management twitchiness prompts foolish deal-making. Could Spain's Repsol really manage an acquisition of Argentina's YPF or Elf handle a tie-up with Petrofina of Belgium, both deals recently mooted? And the obvious industrial case for merging the two French majors, Elf and Total, would run into the difficulty of realising synergies without political interference. Much the same goes for deals with Eni, given the Italian government's 37 per cent holding. For Europe's mini-majors, internal cost-saving should remain the priority.

European oil companies
Sector relative to the FT/S&P World Index



Source: Datastream/ICV

Hewlett-Packard

The thought of management consultants crawling over a business is rarely a happy one. But Hewlett-Packard's admission this week that it is inviting them in for a "fundamental look" at its operations finally acknowledges the need for change. Over the past 18 months, the world's third largest computer group has disappointed. First, costs spiralled out of control, though these have since been reined in. Now revenue growth has slowed, from 20 per cent on average in 1994-97 to just 4 per cent in the latest quarter.

HP is not a terminal case. It has a strong brand and a great franchise in printers. It has been taking market share in personal computers, albeit at wafer-thin margins. With new products due for digital photography and conditions stabilising in Asia, sales growth should accelerate to 8-10 per cent in 1999. But as pressure on the management eases, the danger is that the overhaul will amount to a cosmetic exercise.

That would be a mistake. HP is in too many competitive markets. It has long been suffering in servers and its smaller instruments division – which should be sold. In PCs and printers, low-cost rivals like Compaq and Dell are changing the business model. And HP needs to beef up its internet presence. Over the past few years, HP's closest competitors have either reinvented themselves, like International Business Machines, or been acquired, like Digital Equipment. That should give the consultants food for thought.

ICI

Imperial Chemical Industries' large restructuring programme could soon be in need of another lick of paint. Yesterday's £200m cash proceeds from disposals were good for sentiment, but they will make a minimal dent in ICI's net debt of over £4bn. With a fair wind, ICI should get in extra cash next year of between £1bn and £1¼bn from selling the remnants of its industrial chemicals business. But that would probably still leave interest cover at around 3 times.

There is no cause for panic. ICI's new speciality chemicals are holding up well. And the hit from both sterling strength and cyclical downturn will pass. Still, ICI should consider pushing its restructuring further. A pure speciality chemicals business, for instance, could live without ICI's materials division, which includes acrylics and polyurethanes.

And were ICI to prune its portfolio more aggressively, it might find itself invited to take part in the industry's consolidation party. Of course, being big in speciality chemicals is not the no-brainer it is in bulk chemicals. Speciality chemicals are not volume-driven products. But mergers should deliver cost savings, and take companies even closer to their customers. ICI may feel it has no need to merge. But around it, rivals are getting far larger – witness the Ciba/Clariant merger. A slimmed-down ICI should not be too proud.

Marks and Spencer

Yesterday's resolution of the messy power struggle inside Marks and Spencer, the UK's premier retailer, has failed to satisfy investors. One part of the new arrangement – keeping Sir Richard Greenbury as chairman until July 2000 – makes sense.

He does, after all, bring a wealth of experience. But there was also a need for new blood in the boardroom. The company is too introverted and poor at communicating. Unfortunately, M&S has not done enough on this score.

It is not clear that Sir Richard means to take a back seat after he surrenders the chief executive role. True, he will work only three days a week and *may* take a pay cut. He has also signed a three-page job description setting out his new role – but the company has not published it.

Meanwhile, Peter Salsbury, Sir Richard's protégé, has won the battle for the chief executive's slot. In itself, the choice is not bad. But it would have been better if he had been picked after a broad search outside the company, as well as within. Mr Salsbury, a career-long M&S man, may reinforce the group's inbred tendency. And, if his former boss is still breathing down his neck, he may find it hard to think laterally and establish himself as his own man.

Having made the decision on chairman and chief executive, the least that M&S non-executives should have done was to appoint a strong independent deputy chairman to act as a counterweight to Sir Richard.

Blair speech puts seal on British-Irish friendship

By John Murray Brown in Dublin

Tony Blair put the seal on the new era of friendship between the UK and Ireland yesterday when he became the first British prime minister to address the Irish parliament – the highest honour that the Irish state can bestow on a foreigner.

With deputies and senators squatting in the division lobby to listen, Mr Blair declared: "The old ways are changing between London and Dublin. And this can spur the change and healing in Northern Ireland. The old notions of unionist supremacy and of narrow nationalism are gradually having their fingers prised from their grip on the future."

Mr Blair, surrounded by bronze busts of the signatories of the 1916 proclamation of the republic, also warned that the implementation of the Good Friday peace agreement was facing an "impasse".

Without singling out any party, he made clear the stand-off – with Ulster Unionists refusing to sit in government with Sinn Féin while the IRA retains its arms – had to be resolved soon.

Mr Blair admitted the process was "at a difficult juncture" and that slow progress was being made. But to spontaneous applause he said: "We have come too far, ever to go back now."

"It is time for all the parties to live up to all their commitments . . . Time to set up the institutions of the new government. Time for the gun and the threat of the gun to be taken out of politics once and for all; for decommissioning to start . . . I am not asking anyone to surrender. I am asking everyone to declare the victory of peace."

In a speech punctuated with emotion, he opened his address with recollections of his schoolboy holidays in Donegal, his mother's origins in Ireland and the Irish miners in his own north of England constituency.

"Like it or not, we, the British and the Irish, are irredeemably linked," he said.

But in a clear reference to recent comments by Bertie Ahern, the Irish prime minister, he said: "We must understand your yearning for a united Ireland, so too must you understand what the best of unionism is about."

With Gerry Adams, leader of Sinn Féin, the IRA's political wing, listening in the gallery, Mr Blair said: "They are good and decent people, just like you. They want to remain part of the UK, and I have made it clear that I value that wish. They feel threatened by the terrorism with which they have had to live for so long. Threatened until the Good Friday agreement that they would be forced into a united Ireland against the will of the people of Northern Ireland."

Mr Blair said both countries should "forgive and forget those age old enmities".

He said the peace process in Northern Ireland created "a real opportunity to put our relations on a completely new footing, not least through working together in Europe".

He said the UK and Ireland shared a "common agenda and common objectives . . . and together we can have a stronger voice in Europe".

Underlining this, the two leaders last night signed a protocol to co-operate on drugs and organised crime.

Japan leaves wartime wounds open after hitch in China talks

By Naoko Nakamae in Tokyo

Japan yesterday struggled to limit the damage caused by a diplomatic blunder highlighting its difficulties coming to terms with its second world war record.

On the second day of President Jiang Zemin's visit to Japan, the first by a Chinese head of state, Japanese and Chinese diplomats were unable to agree a joint declaration, referring to Japan's wartime role, that should have been signed by Mr Jiang and Keizo Obuchi, Japan's prime minister.

The hitch emerged on the same day that a Tokyo court rejected a lawsuit filed by about 20,000 British, US, New Zealand and Australian former prisoners of war. They had demanded an apology and $22,000 each as compensation for mistreatment in captivity.

The decision by Mr Jiang and Mr Obuchi to issue, rather than sign, a declaration including references to Japan's wartime history came after the two sides reportedly failed to reach agreement on the wording over the country's role.

Japan had signed an apology to South Korea last month for its behaviour in the war, when President Kim Dae-jung visited Japan. Mr Obuchi's foreign spokesman Akitaka Saiki said: "These are two different relationships. We colonised Korea, but we never colonised China." Sakaaki Numata, Japan's foreign affairs press secretary, said: "In China, it was a case of aggression, not colonisation."

Allied prisoners of war were angered by the Tokyo district court's rejection of their claims. Had the plaintiffs won, the Japanese government would have had to pay about $450m to the prisoners of war and it might have led to further suits from former prisoners and Asian victims of Japanese occupation.

"I went straight from the court and spat on the doorstep of the Diet," said Arthur Titherington, a British former prisoner.

During the talks between Mr Jiang and Mr Obuchi, the Japanese prime minister repeated an oral apology made to China in 1995 by the then prime minister Tomiichi Murayama, who expressed Japan's "deep remorse and heartfelt apology".

Japanese foreign ministry officials attempted to play down the disagreement. "Reports that China was anticipating anything more than an oral apology were conjured up by the fertile imagination of the press," Mr Numata said.

Nevertheless, the embarrassment underlines difficulties between the countries. China has expressed concern over the new US-Japan defence agreement. China believes it is one of the treaty's principal targets and wanted assurances that it would not be invoked over Taiwan, which Beijing regards as a renegade province.

But Mr Obuchi said: "It is not Japan's position to support the independence of Taiwan."

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A Bosnian Serb forensic expert, right, examining a skull yesterday from what is thought to be a mass grave site in Sarajevo AP

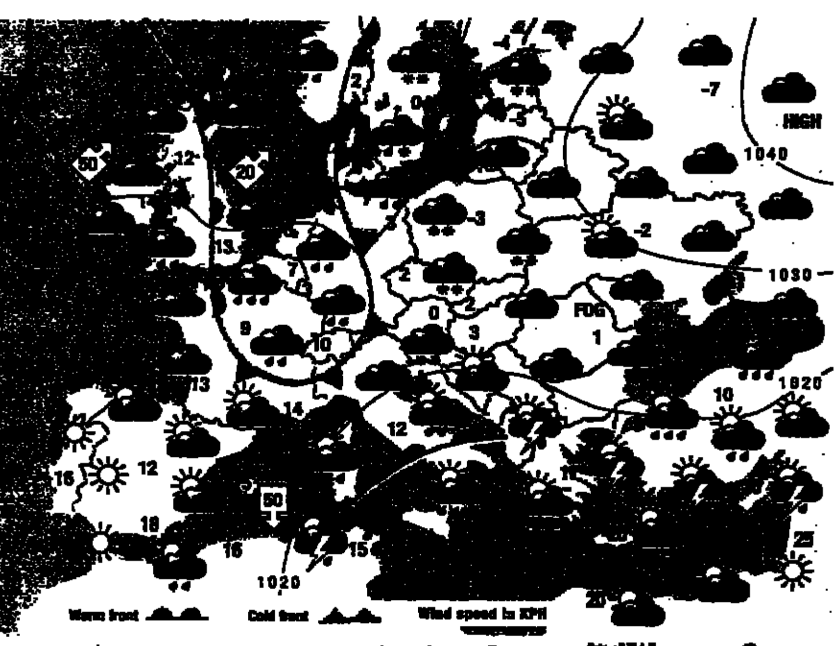
FT WEATHER GUIDE

Europe today

Scandinavia and central Europe will have wintry showers. Northern Scandinavia will have some snow. Farther east, it should be dry but locally foggy with sub-zero temperatures. Turkey, Greece and southern Italy will have heavy thundery showers. The rest of the south will have some sunshine with only passing cloud. Northern Spain, France, the Low Countries and northern Italy will have sunny spells and will stay dry, but there will be showers farther east.

Five-day forecast

Scandinavia will become less cold, with rain in the south but more snow in the north. North-west and central Europe will become milder and stay mostly dry apart from the occasional shower. The Mediterranean will have further heavy or thundery showers, but most of the Iberian peninsula will have sunshine.



Situation at midday. Temperatures maximum for day. Forecasts by PA WEATHERCENTRE

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	Sun	26
Accra	Fair	32
Algiers	Thunder	16
Amsterdam	Cloudy	6
Athens	Thunder	17
Atlanta	Sun	23
B. Aires	Fair	29
B.ham	Fair	13
Bangkok	Fair	31
Barcelona	Fair	13
Beijing	Sun	3
Belfast	Drzzl	13
Belgrade	Cloudy	3
Berlin	Sleet	3
Bermuda	Shower	24
Bogota	Cloudy	19
Bombay	Sun	33
Brussels	Shower	7
Budapest	Cloudy	1
C.hagen	Rain	4
Cairo	Sun	24
Caracas	Fair	30
Cardiff	Cloudy	13
Casablanca	Sun	18
Chicago	Sun	13
Cologne	Drzzl	8
Dakar	Fair	30
Dallas	Sun	25
Delhi	Sun	27
Dubai	Sun	30
Dublin	Cloudy	14
Dubrovnik	Sun	13
Edinburgh	Rain	12
Faro	Sun	16
Frankfurt	Drzzl	4
Geneva	Fair	10
Gibraltar	Sun	17
Glasgow	Rain	12
Hamburg	Cloudy	5
Helsinki	Snow	-4
Hong Kong	Rain	25
Honolulu	Sun	29
Istanbul	Rain	14
Jakarta	Fair	33
Jersey	Rain	13
Johannesburg	Thunder	23
Karachi	Sun	30
Kuwait	Sun	28
L. Angeles	Fair	19
Las Palmas	Fair	22
Lima	Cloudy	23
Lisbon	Sun	16
London	Rain	13
Lux.bourg	Drzzl	3
Lyon	Rain	4
Madeira	Cloudy	20
Madrid	Sun	12
Majorca	Fair	15
Malta	Thunder	16
Manchester	Rain	13
Manila	Fair	30
Melbourne	Fair	28
Mexico City	Fair	22
Miami	Fair	27
Milan	Fair	8
Montreal	Fair	5
Moscow	Fair	-7
Munich	Rain	3
Nairobi	Shower	26
Naples	Fair	14
Nassau	Fair	27
New York	Fair	11
Nice	Sun	14
Nicosia	Fair	24
Oslo	Sleet	2
Paris	Rain	9
Perth	Sun	28
Prague	Rain	2
Rangoon	Fair	32
Reykjavik	Rain	6
Rio	Fair	32
Rome	Shower	12
S. Frsco	Shower	14
Seoul	Fair	7
Singapore	Fair	30
Stockholm	Snow	0
Strasbourg	Drzzl	4
Sydney	Shower	25
Tangier	Sun	18
Tel Aviv	Sun	25
Tokyo	Rain	15
Toronto	Fair	4
Vancouver	Rain	8
Venice	Sun	8
Vienna	Snow	0
Warsaw	Snow	-3
Washington	Sun	12
Wellington	Fair	15
Winnipeg	Fair	7
Zurich	Fair	4

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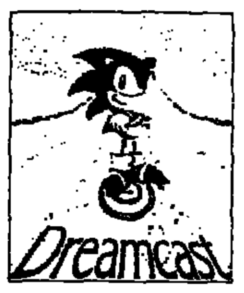
INSIDE

Bank split on GKO plan widens
The split in the ranks of western bank creditors of Russian domestic debt, or GKOs, widened when it emerged that they cannot even agree on the status of their negotiators. Page 26

Italy to press hard for CAP reform
Paolo de Castro, Italy's newly-installed farm minister, said his country considered itself in the vanguard of European Union members pressing for Common Agricultural Policy reform. Page 28

Sega banks all on new console



Soichiro Irimajiri, Sega president, admits that if Dreamcast, the Japanese computer games maker's 128-bit platform that is launched today, fails, he has no fall-back plan. Dreamcast is the key to Sega's survival because its predecessor, the 32-bit Saturn, has been beaten into a pulp by Sony's PlayStation. That left the company that created Sonic the Hedgehog (left) recording its first loss last year. Page 18

New breed for Polish business
The appointment of 31-year-old accountant Jacek Krawiec to head Impexmetal, a Polish metals conglomerate, opens the way for more western-trained managers to replace the communist-era bosses running many of the country's ailing enterprises. Page 20

Polaroid needs instant success
Polaroid, the instant photography company, is one of the worst performers on Wall Street this year. In 12 months its stock price has fallen more than 45 per cent. The group must prove that instant photography, an expensive novelty that consumers have become increasingly unwilling to pay for, still holds appeal. Page 22

Bogotá rally lacks conviction

The Bogotá stock market has rebounded sharply this month, compensating to a small degree for a dismal year for equities. The market index has gained 28.8 per cent in dollar terms in November. Even with the recent upturn, shares are still down 40 per cent on the year and brokers say the degree of recovery owes more to speculation than sound reasoning. Page 38

Japanese shares stage modest rally
Japanese shares rallied modestly, lifted by foreign buying as investors became more positive about the government's spending plan and support programme for the banks. Page 38

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MARKET STATISTICS

SPANISH TELECOMS GROUP INCREASES INVESTMENT TO MEET GOVERNMENT TARGETS OVER NEW LINES AND SERVICE

Telefónica plans $3.8bn for Brazil

By Geoff Dyer in São Paulo

Telefónica, the Spanish telecommunications group, plans to invest $3.8bn in its Brazilian operations next year, giving a much-needed boost to Latin America's largest economy.

Mr Juan Villalonga, Telefónica chairman, said the heavy investment was needed to meet the ambitious targets for new lines and customer service set by the Brazilian government following the July privatisation of Telebrás, the former state-owned telecoms monopoly.

The news comes after Telefónica proposed an unusual plan last week to give shareholders bonus shares rather than dividends so the group could invest more of its cash-flow.

Telefónica, which is the largest telephone operator in Latin America, has already invested $5bn in Brazil after it bought stakes in three of the 12 Telebrás operating companies at the privatisation, including a controlling shareholding in Telesp, the fixed-line business in São Paulo. The group also has a stake in CRT, the telephone operator in the southern state of Rio Grande do Sul, which it acquired in 1996.

Investment in the telecoms sector next year will be important for the Brazilian economy, which is falling rapidly into recession and which has just received an emergency financing package from the International Monetary Fund to prevent a currency crisis.

A sharp recession could weaken the government's fiscal austerity plans and undermine its political support. Output in the third quarter was 1.5 per cent lower, and while the government is forecasting a reduction in gross domestic product of 1 per cent next year, JP Morgan, the US investment bank, is predicting a 4.3 per cent fall.

However, some economists believe heavy investment by newly privatised telecoms and energy companies could limit the extent of the downturn next year.

Mr Villalonga said that as a result of the investment, the group would add 2 million lines in São Paulo state next year and the waiting list for a new line – currently up to 5 million – would be eliminated by the end of 2000. While under state ownership, Telesp had installed about 50,000 lines a month. In October the company had put in 110,000 telephone lines, he said.

The investment plans would be financed from cash and new borrowing. He said that the Brazilian National Development Bank was willing to finance up to half the investment, if needed. "The telecoms sector will be a motor for economic growth and will help improve social and economic conditions in the country," said Mr Villalonga, who was visiting Brazil to launch a new logo for the group.


Call from Ipanema: Telefónica aims to invest $3.8bn in its Brazilian operations which would involve adding millions of extra lines Picture: AP

ING posts a 42% increase in net profit

By Jeremy Gray in Amsterdam

ING, the Dutch financial group, yesterday posted a 42 per cent leap in nine-month net profit in spite of the summer storm in emerging markets and a significant rise in loan-loss provisions.

Net earnings surged to Fl 4.86bn ($2.5bn) – at the top end of analysts' forecasts – compared with an adjusted Fl 3.43bn in the previous period. However, stripping out one-off gains from divestments would have shrunk the bottom line to Fl 3.53bn.

ING said the global financial crisis hit banking results, which tumbled by nearly 10 per cent to a pre-tax Fl 2.1bn. In the June-September period alone there was Fl 330m deficit in the banking operations, for which the group blamed ING Barings, the investment banking arm, which produced "substantial losses". Returns from insurance activities, up 31.8 per cent minus non-recurring items at Fl 2.8bn, helped to offset the banking loss.

Trading results at Barings, one of the world's leading emerging markets players, were savaged by the slowdown in global financial markets. Last month, ING announced it was losing 1,200 people at the unit, including chairman Marinus Minderhoud.

ING raised its total provisions by Fl 930m to Fl 1.54bn – two-thirds related to activities in Asia and Russia. But it maintained its forecast in September of a 15 per cent rise in full-year earnings per share, implying a net outturn of roughly Fl 900m in the traditionally weak fourth quarter.

The one-off items stemmed chiefly from large divestments – including Kredietbank Belgium, credit insurer NCM, mobile telephone network Libertel and its US non-life insurance operations – adding Fl 1.34bn to the bottom line. But the acquisitions of Bank Bruxelles Lambert, and the US insurers Equitable of Iowa and Furman Selz, boosted net profit by Fl 941m.

Michael Lindsey, analyst at Lehman Brothers in London, said ING should have little difficulty meeting its full-year forecast.

In Amsterdam, ING shares closed up 3.2 per cent at Fl 116.30.

UK retailer in $490m deal to raise US presence

By Maggie Urry in London

J Sainsbury, the UK retailer, underlined its ambition to be a $10bn retailer in the US by acquiring Star Markets, a Boston-based supermarket chain for $490m. The deal includes the assumption of Star Markets' debt of $269m.

The vendor is Investcorp, the Bahrain investor group, which acquired the business in 1994 for $285m. Johannes Huth, of Investcorp, said the sale of Star Markets was "a good deal all round. Sainsbury was the logical buyer".

Sainsbury said Star Markets, with $1bn of turnover from 53 stores, would fit well into its New England-based Shaw's chain, which generates $3bn of sales from 121 stores. Combining the two would give the group $4bn of the $10bn US sales it aimed to achieve in five to seven years.

Star Markets made a profit before interest, tax and depreciation of $47.3m in the year to end January 1998, but lost $8.2m after financing costs.

Dino Adriano, group chief executive of Sainsbury, said: "We are committed to the US and to Shaw's."

He said further acquisitions would be needed to reach the sales target and were likely to knit with Shaw's operations.

Analysts were sceptical about the deal and about Sainsbury's aim for a 17 to 19 per cent return on net assets within three years, pointing to the competitive nature of the US food retail market and rapid consolidation among leading groups. They highlighted the difficulties Shaw's had experienced expanding into Connecticut. Sainsbury shares fell 13p to 515p.

Steve Woolf, European retail analyst at Banque Paribas, said: "It is a small fish in a very large pond full of sharks."

Mr Adriano said: "Analysts are always sceptical. This should make them think again." He said there were still a large number of medium-sized retailers in the US, and no truly national chains.

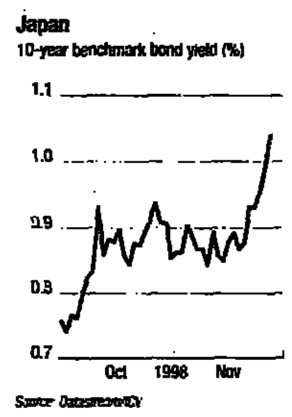
He predicted the deal would bring $40m in savings by the third year of ownership, through improved buying, better distribution, and administrative and marketing savings.

However, there would be costs approaching $100m over the next five years to convert the Star Markets shops to Shaw's.

The deal increases Shaw's market share in New England from 15 to 21 per cent, making it a stronger second to Stop & Shop, a subsidiary of Ahold, the Dutch retailer.

Investors shed Japanese bonds

By Edward Luce in London and Paul Abrahams in Tokyo



The yield on the benchmark Japanese government bond yesterday rose above 1 per cent for the first time in three months as investors dumped bonds on fears of Japan's widening budget deficit.

The sell-off was prompted by news of a Y10,000bn ($83bn) shortfall in budget receipts this year, which meant the supply of government bonds would have to rise sharply.

Economists estimate that the monthly auction of 10-year government bonds will rise from Y1,200bn to Y2,000bn, leading to the possibility of over-supply in the market.

Earlier this year, the Japanese government bond broke all records when the yield dropped below 1 per cent for the first time. This was caused partly by an investor flight to safety driven by fears of the deteriorating credit quality of the corporate bond market, and declining values in the Japanese equity markets.

Yesterday's sell-off has prompted speculation that the price bubble in Japanese government bonds is bursting. "This is the most overvalued government bond market in the world," said one trader in London.

However, economists say it is unlikely that Tokyo will allow the yield to rise back to 2 per cent or more, given the banking sector's heavy exposure to the market.

Japanese banks have been borrowing short term money at rates of 0.25 per cent or below and re-investing it in long-term government bonds at yields of 0.7 per cent and above. The difference has kept much of the banking system solvent in the absence of any real lending opportunities.

"If the yield went above 2 per cent then much of the banking system would be in real trouble," said Sally Wilkinson, an economist at Daiwa Europe in London. "You should not underestimate the determination of the Bank of Japan and the Trust Fund Bureau [a Japanese government agency] to buy JGBs if the yield was heading towards 2 per cent."

The rise in the yield to more than 1 per cent also means the government bond is suddenly a high-yielding security relative to other Japanese assets such as bank deposits, corporate bonds and listed shares. This is likely to prompt a renewed surge in demand for JGBs by life assurance companies and pension funds.

Investors will have to await the next auction of 10-year government bonds in early January to see by how much the volume is increased. "If the auction increases to Y2,000bn, the Japanese government will have to buy a lot of its own debt to keep prices stable," said one trader.

Bonds, Page 26

Rapid decline in sales prompts Hitachi shake-up

By Paul Abrahams in Tokyo

Hitachi, the Japanese electronics conglomerate, is to restructure its operations, spinning off two divisions in a move prompted by the poor performance of its entire range of businesses.

The group, part of the troubled Fuyo *keiretsu*, or corporate family, also revealed yesterday that it would post consolidated losses of Y250bn ($2.1bn) for the year ending March, even though it was cutting capital spending by Y100bn.

"We have never had such an across-the-board, rapid sales decline," said Yoshiki Yagi, senior managing director at Hitachi. "Even at the time of the oil shocks in the 1970s, we could find one or two bright spots."

Hitachi, whose broad manufacturing activities take in monorail systems and television sets, said the home appliances operations would be spun off into a wholly owned subsidiary called Hitachi Taga Electronics. It would manufacture vacuum cleaners, washing machines, handheld computers and colour printers.

The other new subsidiary, to be called Hitachi Lighting Equipment, would produce light bulbs and industrial lighting.

Analysts said the moves, although welcome, appeared hesitant given the scale of Hitachi's problems. They also compared unfavourably with recent changes at rival Toshiba, where the president has indicated 30 per cent of the businesses would need restructuring and a number of significant deals with foreign and domestic companies have already been announced.

Hitachi's operating profits in the first six months to September collapsed from Y146bn to a loss of Y39bn on sales down 6.4 per cent to Y3,900bn. Sales in all the divisions – information, telecommunications, industrial machines, power plants, semiconductors, consumer electronics and basic materials – had fallen. The group also fell into a loss at the net level, from earnings of Y37.6bn to a loss of Y142bn.

Operating losses for the semiconductor business would deteriorate from Y70bn last year to Y100bn this year, Mr Yagi warned.

The company can usually count on its power plant division to offset problems in other operations. But deregulation of the power supply industry means companies with surplus electricity can sell it, which has forced power groups to rein in capital spending.

● Mitsubishi Electric, another electronics conglomerate, warned that its consolidated net losses had deteriorated from Y26bn to Y31bn in the first half. At an operating level, a Y8bn profit last time became a loss of Y9.8bn on sales down 2 per cent at Y1,790bn.

For the full year, it expected to achieve zero operating profits. But at the net level it predicted profits of Y20bn, thanks to an extraordinary gain of Y80bn on the sale of land and cross-shareholdings. Last year it posted net losses of Y105bn.

Normandy hedge book nets A$650m

By Gwen Robinson in Sydney

Normandy Mining, Australia's largest gold producer, said yesterday it would realise a A$650m (US$416m) net profit on its extensive gold hedge book.

The deal fuelled speculation that Normandy was preparing for a large acquisition or investment, prompting the company to deny it was considering a takeover of Great Central Mines, another leading Australian gold producer in which Normandy holds a 25 per cent stake.

Normandy said the "priority allocation" for proceeds of the hedge book sale would be development of new, low cost gold mines and a magnesium metal project in Queensland.

It runs one of Australia's most extensive gold-hedging programmes – hedging enables mining companies to forward sell future production at fixed prices.

Yesterday's deal represented 85 per cent of the value of Normandy's hedge book out to 2008, or 4.1m ounces of gold, about two-thirds of the total covered by forward sales.

With gold prices showing signs of stabilising, after sliding steadily for most of the year, it was both "strategic and prudent" for Normandy to re-position itself to take advantage of any uptrend in gold prices, analysts said.

The sale would also drive down Normandy's gearing ratio from 34 per cent to 8 per cent and give it a strong cash position.

There would be no impact on the gold market because identical gold hedging positions in both quantity and maturity would be re-established simultaneously, Normandy said.

Normandy's current 6.5m ounces of gold hedged was valued at an estimated average price of A$538 an ounce, compared with A$670 an ounce previously, the company said.

The new hedging profile, however, would emphasise uncommitted put options to allow greater flexibility.

The company said it would also consider "when appropriate" a share buyback plan, which would be cash flow positive.

Standard & Poor's, the US ratings agency, affirmed its credit ratings on Normandy and said cash proceeds from the hedge book sale would crystallise the company's financial flexibility.

It predicted Normandy would maintain a moderate financial position and a significant gold hedging position that would cushion against volatile market conditions.

Retry or abort for Sega as new games console is launched

Japanese group sees its new 128-bit machine as the key to its survival, write **Paul Abrahams and Alice Rawsthorn**

Sonic boom: 'With the release of Dreamcast, we're not competing with Sony and Nintendo any more, we're blowing them out of the water'

It may seem odd for the president of a crisis-ridden Japanese company to spend a morning playing computer games; but not if he is Soichiro Irimajiri, Sega president, demonstrating Dreamcast, the group's new games console.

The stakes are high. Today's launch of the 128-bit machine, billed as a successor to Sony's 32-bit PlayStation and the Nintendo 64, may be the last time Sega can push the reset button, according to Nanako Sakaguchi, analyst at Dresdner Kleinwort Benson in Tokyo. Even Mr Irimajiri admits that if Dreamcast fails, he has no fall-back plan.

Dreamcast is the key to Sega's survival because its predecessor, the 32-bit Saturn, has been beaten into a pulp by Sony's PlayStation.

In the first half of this year, the PlayStation captured 70 per cent of Japanese console sales, against the Saturn's 9 per cent and the Nintendo 64's 4.5 per cent.

Sony's success has cost Sega dear. It reported its first loss last year: a deficit of Y43bn after sales collapsed more than 24 per cent to Y271bn.

With declining cash flow and Y150bn of convertible bonds due over the next two years, Sega urgently needs its share price to recover.

Yesterday, the shares traded at Y2,845, against Y4,550 two years ago. The largest convertible issue, worth Y100bn is convertible at Y7,913 a share.

Unless Dreamcast succeeds, Sega's prospects are bleak. Its progress also has implications across the games industry, a cyclical sector that is nearing the end of a buoyant period.

The games market took off in the mid-1980s, only to collapse in the early 1990s when consumers became bored with the old 8-bit and 16-bit consoles. Sales soared after the launch of the 32-bit PlayStation and Saturn in 1994; but the 32-bit and 64-bit console market peaked in Japan this year, and will peak in North America and Europe next year.

Sony is working in secrecy on a successor to the PlayStation, incorporating digital versatile disc technology, as is Nintendo on a 64 replacement. But Sega will be the first of the three to test the next wave of games technology with the Dreamcast just as online gaming is increasingly popular, as is personal computer games software.

Mr Irimajiri is defiant. He insists that Dreamcast is Sega's PlayStation killer and the answer to its problems. "With the release of the Dreamcast, we're not competing with Sony and Nintendo any more, we're blowing them out of the water," he claims.

The first step, he says, is admitting what went wrong before. "We were arrogant," concedes Mr Irimajiri. "We thought we knew best. But the fatal flaw with the Saturn was that it was so difficult for third parties to develop software. We just didn't get enough good titles."

Sega has publicly apologised with a five-month television campaign. The first advertisement showed a Sega executive overhearing one boy telling another: "Sega sucks. I want a PlayStation." The campaign culminates in Sega admitting its products were substandard and promising to do better. "Sega may have sucked in the past, but we are now defining the future with Dreamcast," proclaims Mr Irimajiri.

The 128-bit machine has a double-density CD-Rom, providing additional memory for more complicated games. Its NEC-manufactured graphics engine produces three-dimensional graphics faster and more realistically than 32-bit machines.

However, its sales prospects will depend mostly on software. There will be just five launch titles, among them *Virtual Fighter*, *Godzilla Generations* and *Sonic Adventure*. A further 18 titles are scheduled for release before April.

Dreamcast's debut has been dogged by production problems with the graphics chip designed by VideoLogic of the UK and manufactured in Japan by NEC. Output has fallen below expectations. Only 500,000 machines will be produced this year against a target of 1m – worrying for Sega as Christmas and new year are Japan's busiest sales seasons.

Sega has the advantage of being the only one of the three big games groups with a new console out in Japan this Christmas, but Sony and Nintendo are not prepared to cede the initiative. Sony is spending heavily on PlayStation advertising worldwide this winter, as is Nintendo, which launched a new *The Legend Of Zelda* game for the 64 in Japan last week and the US this week.

Mr Irimajiri hopes to sell 10m Dreamcast consoles in Japan over the next four years, but says it will break even on sales of 3m. However, the initial response to the Dreamcast in its domestic market will be critical in setting the tone for its international debut in Europe and North America next autumn, and that is where the battle for Sega's survival will be won – or lost.

Blockbuster poised to buy assets of KPS

By Louise Lucas in Hong Kong

Blockbuster, the US home entertainment retail chain, is poised to snap up assets of KPS, the collapsed Hong Kong video retail chain.

Blockbuster, which had been looking to enter the Hong Kong market for some time, has secured a 30-day exclusive period to conclude negotiations. It is aiming to buy KPS's stock of videos and other products, as well as furniture and fittings. It may also take over some of KPS's 38 leases on stores.

The deal would give Blockbuster a strong foothold in Hong Kong, complementing its presence in other parts of Asia. It has 50 stores in Taiwan, and is also active in Thailand, Japan, Australia and New Zealand.

KPS was founded in 1981 and grew into the biggest video rental chain in Hong Kong. It collapsed early this month, at least partly a victim of the economic crisis and the imposition of laws last year that banned parallel imports, or the purchase of goods independently of the official distributor.

KPS said that as a result it was unable to obtain some of the non-mainstream films that distributors found commercially unviable to supply.

But KPS also floundered on problems of its own making: management issues, strategy and finances. Its coupon scheme – where customers bought tickets in advance, usually at a discount, to exchange for video rentals – backfired and created debt.

Coupon schemes are popular in Hong Kong, and give vendors upfront cash flow. However, consumers have become less keen on them following the failure of KPS and, earlier in the year, Maria's, a bakery chain that also used coupons.

Blockbuster said it believed it could still source a wide range of local and foreign films despite the parallel imports ban. Al O'Donnell, vice-president Asia, said he was confident local suppliers would make sufficient products available.

Ernst & Young, who were appointed receivers on November 5, have received several indications of interest from potential buyers, including Movieland, a smaller Hong Kong chain that boasts a wide selection of foreign films. There was also talk that Garrie Roman, KPS's original founder, might return.

Asian airlines see 2.3% rise in traffic

By Tony Tassell in Manila

Asia's depressed airline industry saw a glimmer of an upturn in September after a nearly a year of declining passenger traffic and revenues.

While competitive pressure on air fares remains intense, for the first time since October 1997, the number of passengers carried by Asian airlines rose in September with a 2.3 per cent increase in traffic, according to figures collated by the Association of Asia Pacific Airlines.

At the same time, revenue passenger kilometres – the aggregate distance travelled by paying passengers – rose 4.3 per cent as airlines cut flights between low-demand short-haul destinations and increased long-haul routes.

After reductions in capacity, the passenger load factor – the percentage of occupied seats on airline flights – rose by 3.6 percentage points to 72.03 per cent.

"It is obviously premature to say that recovery of growth is firmly established or even that a clear trend has emerged, but the decline of traffic has stopped, the number of passengers has increased, and we have had two consecutive months of increased load factors," said AAPA director general Richard Stirland.

Still the industry remains cautious about the outlook for the industry.

Some fares are being cut by carriers to below cost levels and much of the increase in passenger traffic has occurred in low-yield areas such as promotional fares.

The caution was echoed by other industry leaders at the conference.

Jim Crea, managing director of Air New Zealand, said the shift in airline capacity from short-haul to longer routes had increased revenue passenger kilometres. However, as more airlines shifted capacity to this section of the market, competitive pressures on yields would increase.

Mr Cheong Choong Kong, chairman and chief executive of Singapore Airlines, said it would be a "brave man to predict the tide has turned" for the Asian airline industry.

Philip Chen, chief operating officer of Cathay Pacific, added he would be reluctant to say the recovery for the industry had started.

"1999 will still be a challenging year," he said.

Global expertise in debt capital markets

Crisis. What crisis?

No one can deny that the international bond markets have presented some challenging conditions during the past months.
But for those with in-depth knowledge and experience of the markets, the crisis provided an opportunity, not a threat.

At Warburg Dillon Read, our clients trust us to guide and advise them through difficult times. They trust us to reach a global investor base, across every currency and every market.
That's why in October we raised more debt for clients around the world that any other investment bank* - over US$10 billion, which represents more than 25% of the month's total bond issuance in the international markets.

On this page we present just a selection of financings that we have been pleased to arrange for our clients. As you will see, when the markets set the challenge, one name sets the pace.

General Electric Capital Corporation
EURO 400 million
due 2005
1 October

European Investment Bank
STG 250 million
due 2021
2 October

KfW Kreditanstalt für Wiederaufbau
KFW International Finance
STG 450 million
due 2003
12 October

European Investment Bank
US$750 million
due 2003
14 October

WORLD BANK
IBRD
US$500 million
due 2005
14 October

Inter-American Development Bank
STG 75 million
due 2008
16 October

Republic of Italy
EURO 650 million
due 2005
19 October

CADES
CADES
STG 200 million
due 2002
21 October

European Bank for Reconstructio and Development
EBRD
STG 75 million
due 2028
21 October

kpn
KPN
DM 2 billion
due 2008
22 October

Generalitat de Catalunya
EURO 185 million
due 2009
23 October

WORLD BANK
IBRD
US$1 billion
due 2003
26 October

THE ASSOCIATES
Associates Corp. of North America
US$4.8 billion
due 2003
27 October

Canada
US$2.5 billion
due 2008
27 October

FannieMae
FNMA
STG 200 million
due 2002
28 October

Warburg Dillon Read

*Source: Capital DATA Bondware, October 1998. †The Canada transaction was joint lead managed with RBC Dominion Securities and Goldman Sachs & Co.
Issued by UBS AG, regulated in the UK by the SFA. In the US, Warburg Dillon Read LLC, a subsidiary of UBS AG, is a registered broker-dealer and member of SIPC, the New York Stock Exchange and other leading exchanges.

OIL INDUSTRY EXXON AND MOBIL DISCUSSIONS SPARK SPECULATION ABOUT OTHER COMPANIES

Merger talks lift European oil shares

By Our International Staff

Shares in Europe's largest oil companies surged yesterday as news that Exxon is in talks to buy its smaller US rival Mobil sparked intense speculation that similar moves may be afoot in Europe.

Attention was focused on Paris, where shares in Elf-Aquitaine and Total, the two big French oil companies, were sharply higher. They closed up 4.7 per cent and 5.5 per cent respectively.

There was also a strong focus on Royal Dutch Shell, with analysts saying that any Exxon-Mobil deal would put pressure on Shell to move because it is considered Exxon's closest traditional rival. Its shares were the most heavily traded FTSE 100 stock and ended up 14½p at 367½p, while British Petroleum closed 23½p higher at 956½p.

In France, speculation has been rife that Elf might be involved in the next big deal in the sector, seeking to take over PetroFina, the Belgian oil and petrochemicals group.

PetroFina insisted yesterday that the possibility of an Exxon-Mobil merger "changes nothing for us". PetroFina shares ended the day up BFr250 at BFr13,700.

But Baron Albert Frère, the Belgian financier whose business empire controls 30 per cent of PetroFina, said in a rare public comment following news in August of a $55bn merger between British Petroleum and Amoco that no company could remain indifferent to the consolidation in the industry.

The market also seems convinced that PetroFina's days as a standalone group are numbered.

"When even companies like Exxon are looking for partners, you have to wonder about the smaller ones," said Sandra Vandersmissen, analyst at Générale de Banque, Belgium's biggest bank. "It increased my view that eventually something has to happen with PetroFina."

Shell shared the top tier of the international oil industry with Exxon until the announcement of the merger between BP and Amoco.

But some analysts noted that the steep slide in its share price in recent months would limit its ability to take over another large oil company. Shell has also shown a preference for more limited alliances and joint ventures, such as its recent European refining and marketing deal with Texaco.

Shell is suffering more than most of its competitors from the downturn in oil and commodity chemical prices. Many expect it to focus on restructuring its current portfolio rather than join in any consolidation wave.

In Italy, shares in Eni, Europe's fourth largest oil and gas group, ended the day up 3.74 per cent at L10,405.

Senior Exxon executives have been meeting in recent weeks with international oil companies, including Eni, over possible partnerships and deals in specific product and geographical sectors.

Eni has maintained a constant look out for potentially value enhancing deals and partnerships. But analysts said Eni was unlikely to jump into any large scale deal, as it has recently appointed Vittorio Mincato as its new chief executive to replace Franco Bernabe, who has moved on to head Telecom Italia.

Reports by Robert Corzine in Vienna, Paul Betts in Milan, David Owen in Paris and Neil Buckley in Brussels.

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London Stocks, Page 34

Fiat surges on speculation about alliance

By Paul Betts in Milan

Fiat shares yesterday surged by 7.2 per cent amid market speculation over a possible alliance and other strategic moves by the Italian automotive group's controlling Agnelli family.

Fiat ordinary shares closed in Milan yesterday L375 higher at L5,580 after gaining 7 per cent the previous day. The two Agnelli family quoted holding companies, Ifi and Ifil, also saw sharp gains in their shares.

Ifi preferred non-voting shares (only Agnelli family members can hold voting stock) rose 8.4 per cent to close yesterday at L32,200. Shares in Ifil, the industrial holding company, rose 3.7 per cent to close at L7,200.

Financial analysts and car industry officials yesterday attributed the strong performance of Fiat and the rest of the Agnelli stable to the fact that these shares were now regarded as undervalued.

Most Italian blue chips have moved higher in the recent stock market rally but Fiat and the two Agnelli holdings have lagged behind. Fiat ordinary shares are still a long way off their 12-month high of L9025.

However, the market has also been gripped by talk of possible alliances involving Fiat and another large car manufacturer as well as a rationalisation and simplification of the Agnelli chain of control over Fiat through the family's various cascading holding companies.

The recent decision of Giovanni Agnelli & C, the non-quoted holding at the top of the pyramid, to launch a $1.6bn move to acquire full control of the Luxembourg-based Exor group has fuelled speculation of a possible integration of Ifi and Ifil as well as a merger between Fiat and the Agnelli quoted holdings.

Carlo Camerana, one of the active partners of Giovanni Agnelli & C, yesterday denied any moves involving Fiat and the family holdings.

"You know perfectly well that Giovanni Agnelli & C has prepared a takeover offer for Exor and that is all, there is nothing else new," he said.

One financial analyst said it would make "little sense" to merge the holdings into Fiat. Ifi and Ifil between them own about 30 per cent of the automotive group, Italy's largest manufacturing concern.

Paolo Fresco, Fiat's new chairman, and Paolo Cantarella, the car group's chief executive, have also made it clear that the company is not involved in any negotiations to forge a large-scale strategic alliance with another car manufacturer. Both have said they believe Fiat can develop on its own, although they have also said the company would not ignore suitable opportunities.

However, many of Fiat's subsidiaries have been actively negotiating mergers and acquisitions including the recent foundry components deal between its Teksid subsidiary and Renault.

INSURANCE GERMAN GROUP UPBEAT

Allianz sees sharp premium income growth

By Tony Barber in Frankfurt

Allianz, Europe's largest insurance group, predicted yesterday that its worldwide premium income would grow by 24 per cent this year to DM108bn ($62bn) despite strong competition in the property and casualty business and currency devaluations in Asia.

The Munich-based company said it was sticking to its forecast of growth in net profit of at least 10 per cent for 1998, provided that international financial markets maintain their recent stability and there is no unusual increase in the size and amount of insurance claims.

Group premium income rose by 18.7 per cent in the first nine months of this year to DM76bn, of which DM44.9bn came from the property and casualty business and DM31.1bn from life and health insurance, Allianz said.

The results, which were largely in line with analysts' expectations, are the last that Allianz will publish according to German accounting standards. Like other internationally oriented German companies, Allianz – which generates two-thirds of its income outside Germany – will switch to international accounting standards when it issues its full 1998 results.

The company's performance so far in 1998 owes much to the contribution of the French insurance group AGF, which Allianz took over earlier this year. AGF accounted for DM12bn of Allianz's premium income from January to September, and the figure is expected to reach DM18bn for the whole of 1998.

The takeover of AGF illustrated how Allianz, like most large German companies, is keen to secure a prominent market position in France and other countries preparing to adopt the single European currency from next January.

Allianz and Dresdner Bank, Germany's third largest bank, recently announced the formation of a joint venture in asset management services and have identified France, Germany, Italy and Spain as their main targets in the mutual fund market next year.

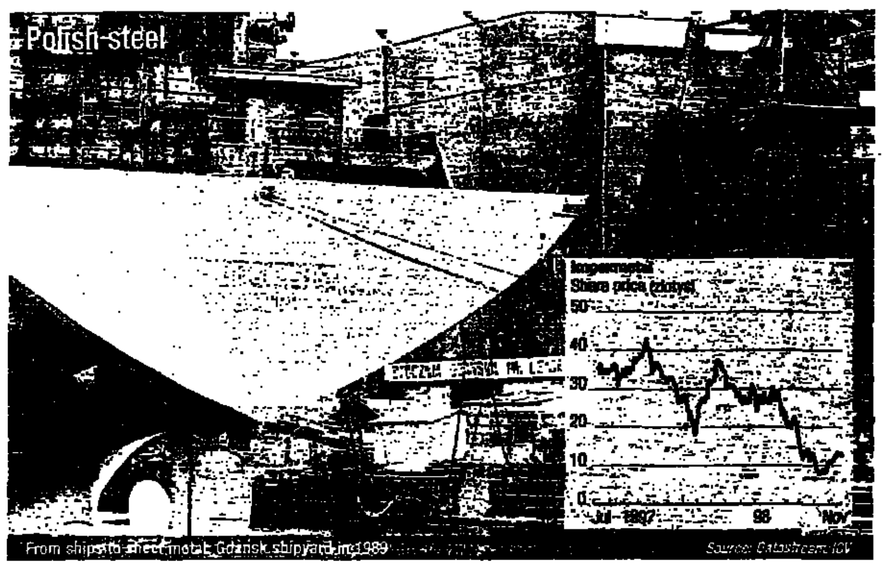
Allianz underlined the impact of Asia's financial crisis on its performance by saying that currency devaluations there had caused the group's total premium income from the region to fall when measured in D-Marks.

The company gave no precise figures but said gross premiums, when measured in local currencies, had risen by more than 10 per cent.

In the property and casualty business, premiums rose in the US, France, Italy and Switzerland but fell in Austria, Germany and the UK. Premium income for health and life insurance rose in all important markets except France and the US, where the annuity business of Allianz Life slumped, the company said.

Nomura seeks results from new guard

Impexmetal's chief has two years to cut costs and shift the group's focus, writes **Christopher Bobinski**



From shipyards to steel: Gdansk shipyard in 1989

The arrival of Jacek Krawiec at a Polish steel company this summer may not have made headlines beyond the country's borders. But his appointment as head of Impexmetal, a listed metals conglomerate, opens the way for a new generation of western trained Polish managers in a country where many large companies are still run by those with roots in the former communist system.

Mr Krawiec, a 31-year-old accountant from Poznan, has represented his country as a middle distance athlete. He spent the mid-90s working in Warsaw for Ernst & Young and Price Waterhouse and was taken to London by Nomura, the Japanese bank, early last year. Nomura took a 15 per cent stake in Impexmetal in the spring, when the company was privatised.

But shortly afterwards, Nomura grew concerned that Impexmetal was being poorly managed and began to fret about its initial 57m zloty ($16.3m) investment in the company.

This concern resulted in Edward Wojtulewicz, the 56-year-old former managing director, being ousted. Mr Wojtulewicz, an Impexmetal veteran, had transformed the company from a state trader specialising in copper and other metals into an industrial conglomerate employing about 7,500 people.

It now owns the modern Zawiercie steel mill and the Konin aluminium plant as well as stakes in copper processors and zinc smelters.

Mr Wojtulewicz's critics say he felt more at home cutting deals with former nomenklatura figures than working to streamline the company to cope with foreign competition.

To Nomura's horror, costs rose and Impexmetal accumulated 175m zlotys of debt, which is costing 39m zlotys a year to service.

Nomura's purchase of its stake was only possible with the backing of Templeton Global Investors, a global fund manager that held a 10 per cent stake. It was concerned that listed Polish companies were generating feeble profits.

The state treasury, which still has a 31.5 per cent holding and is under the strong influence of the pro-business Freedom Union party, backed Nomura's move.

Once Mr Krawiec came in he saw that Impexmetal's group profit prediction for this year of 57m zlotys was wildly unrealistic. Steel export prices had been falling.

Analysts say the old guard managers would like to see him fail

The company is now working to a 17m zlotys net profit target for 1998. This compares with a 36.4m zloty net profit reported for last year.

Mr Krawiec has embarked on a cost-cutting exercise, which aims to reduce headquarters staff from 359 to 188 by June next year. Similar moves are under way at the company's production plants.

Impexmetal's foreign subsidiaries are to be closed and replaced, where necessary, with representative offices. The company's trading functions are also to be re-organised. Together this should produce savings of 15m zlotys next year.

But the main challenge lies with a radical refocusing of Impexmetal's activities. Acting on advice from McKinsey's, the management consultants, Mr Krawiec has decided on a disposals programme that includes selling the company's Zawiercie mill and the Huta Silesia zinc smelter.

Mr Krawiec says the proceeds from these disposals should allow a reduction of the debt burden and allow Impexmetal to concentrate on its aluminium mill at Konin and copper processing at the Hutmen and Szopienice plants.

Mr Krawiec has been given two years to implement the programme. But it has already been described as "a death sentence for the idea of building a Polish-owned holding group in the metals industry" by Magazyn Hutniczy, a trade paper with close links to the trade unions.

Analysts say the old guard managers would like to see him fail and that they often point out that the Impexmetal share price, about 27 zlotys when Mr Krawiec took over, dropped to about 9 zlotys this month.

Nomura paid 37 zlotys a share for its stake and is looking to Mr Krawiec to coax the price back up to a level that will allow exit with face – and some profit.

NEWS DIGEST

WINES AND SPIRITS

Rémy Cointreau rises on Krug sale speculation

Shares of Rémy Cointreau, the French spirits and wines group, yesterday closed at FFr98.1, up 3.5 per cent, after reaching a high of FFr103. The company's stock has risen by almost 25 per cent since the beginning of the week on a combination of analysts' recommendations and speculation that the group was selling Krug, its luxury champagne brand.

Analysts at SG, the investment arm of commercial bank Société Générale, and EIFB, the brokerage operation of CIC, the mutual bank, have revised their recommendations on the company. SG, which had consistently recommended selling Rémy shares, this week turned "neutral", while EIFB set a target of FFr130-FFr150, based on an expected "rise in the group's profitability".

While acknowledging the existence of several potential buyers for Krug, Rémy said it did not comment on market rumours. **Samer Iskandar, Paris**

CONGLOMERATES

Viag, Alusuisse deal expected

Viag, the German conglomerate, and Alusuisse, the Swiss industrial group, are expected to give details today of a proposed "merger of equals" creating a company with annual sales of about $30bn.

The two companies last night said they will hold simultaneous news conferences in Munich and Zurich this afternoon covering what is believed to be the creation of a new company.

Wilhelm Simson, Viag chairman, is believed to have backed a plan for a merger, rather than a takeover, to avoid the purchase and goodwill write-off costs of a full-blown takeover. **Frederick Stüdemann, Bonn**

OIL REFINING

Hellenic profits double

Hellenic Petroleum, Greece's partly privatised oil refining group, said yesterday that improved refining margins helped double consolidated nine-month pre-tax profits from Dr16.3bn to Dr32.6bn ($128m).

But group turnover fell 4.9 per cent in the first nine months from Dr550.3bn to Dr523bn because of sharply lower international oil prices. **Kerin Hope, Athens**

PENSIONS

Fund prepares for euro

VKG/CPM, the pension fund for Belgian doctors, dentists and pharmacists, has become one of the first European institutions to move out a significant proportion of its assets out of domestic equities in preparation for the launch of the single currency in January.

The BFr14bn ($398m) fund shifted about a quarter of its assets, or BFr4.5bn, out of Belgian equities into a pan-European portfolio.

Fund managers and brokers expect to see huge volumes from such shifts in asset allocation as institutional investors take the opportunity to invest in a "domestic" asset base which will include all members of the European currency union from January.

Morgan Stanley Dean Witter, the US investment bank which handled the transaction, is talking to several other European pension funds about making similar moves in the next few weeks. **Jane Martinson**

Core businesses strong as Richemont slips 3%

By William Hall in Zurich

Richemont, the Swiss-based *tobacco and luxury goods* conglomerate controlled by South Africa's Rupert family, underlined the strength of its core businesses yesterday by reporting a 3 per cent drop in first-half net income *to £193.9m ($322.3m).*

The group's performance, heavily distorted by currency movements, was underpinned by a 5.8 per cent growth in the underlying profits of its Rothmans tobacco business, which accounts for 80 per cent of operating profits. The Vendome luxury goods business, which has been hit by a drop in Far Eastern sales, reported a 6.3 per cent drop in operating profits.

Net sales revenues dropped 5.4 per cent, to £2.2bn, but in constant currency terms they rose 4 per cent. *Operating* profits *fell* 15.1 per cent, to £479.1m, but in constant currencies the drop was only 2.5 per cent.

Richemont owns 67 per cent of Rothmans International, the world's fourth *biggest cigarette manufacturer* whose brands include Peter Stuyvesant and Dunhill. Worldwide cigarette volume fell 3.2 per cent. Asia and Pacific reported strong volume growth, with good progress in Indonesia and Vietnam.

However, this was offset by declines in several markets, notably central and eastern Europe, South Africa and certain Middle Eastern markets.

Despite the drop in sales volume, net sales revenues in tobacco rose 2.9 per cent at constant exchange rates, *reflecting* a combination of price increases and an improved sales mix, with most of the volume decline concentrated in non-premium brands.

Tobacco operating profits *fell £75.2m to £390.5m, but* after exchange-rate movements and the absence of last year's windfall excise-duty gains in Australia, Richemont's underlying operating profits in tobacco increased 5.8 per cent.

Vendome, whose luxury brands include Cartier, Montblanc and Alfred Dunhill, is one of the world's largest luxury goods companies. First-half sales rose 4.3 per cent to SFr1.73bn ($1.2m).

Revenues rise at Swisscom

By William Hall in Zurich

Swisscom, Switzerland's national telephone company, increased its revenues in the third quarter by 3.4 per cent, to SFr2.55bn ($1.8bn), and *appears to be losing less* market share than expected to new competitors.

Swisscom yesterday published its first revenue figures since it was partly privatised at the beginning of October.

Mobile telephony, as expected, continued to grow rapidly with a 23 per cent rise in third-quarter revenues to SFr461m. However, analysts were more impressed by the modest 1.6 *per cent drop in third-quarter* revenues on Swisscom's fixed-line network which last year accounted for more than two-thirds of its revenues.

Swisscom's fixed-line revenues *fell by over 3 per cent* in 1997 as it cut prices to defend its position against the 150 telecoms companies which are now battling for market share in one of the world's most lucrative telecoms markets. In the first six months of 1998 fixed-line revenues fell by a further 3 per cent

Robert Mocatta, of Credit Suisse First Boston, said that the marginal drop in third-quarter fixed-line revenues showed that "the underlying competitive pressures are not as great as we thought" and he expected to upgrade his forecast 1998 earnings which at SFr1.5bn had been at the bottom of *the range of expectations.*

Swisscom's price cuts have stimulated a growth in its domestic traffic which rose 10 per cent in the first nine months. Intensified marketing of value added services and a 32 per cent increase in ISDN lines has led to a considerable increase in charge minutes in some areas.

In mobile telephony the subscriber base increased 57 per cent, to 1.47m over the past year.

AIRLINES ITALIAN AND DUTCH CARRIERS TO SIGN AGREEMENT TODAY BRINGING THEM CLOSE TO OPERATIONAL MERGER

Alitalia, KLM poised for co-operation

Paul Betts in Milan and Gordon Cramb in Amsterdam

Alitalia and KLM Royal Dutch Airlines are to sign today a wide-ranging co-operation agreement that is expected to come close to a full operational merger.

The alliance, which at this stage does not envisage any equity exchanges between the two airlines, will involve the creation of two separate jointly-held companies to control passenger and cargo operations.

Alitalia, which reached a preliminary agreement with KLM last year, sees the partnership as an essential step ahead of its planned privatisation. The Italian government, which controls the airline, is hoping to sell its remaining 67 per cent stake in the carrier before next spring.

Alitalia and KLM expect to make substantial cost savings from their alliance, estimated at L200bn-L300bn ($118m-$177m) a year for each airline. They also regard the agreement as a response to the current scramble among international airlines to forge international alliances to boost profits and expand their networks.

The KLM-Alitalia link-up, which will also include KLM's US partner Northwest Airlines, will challenge the Star Alliance – the world's largest alliance, including Lufthansa and United Airlines – and Oneworld, led by British Airways and American Airlines.

The KLM-Alitalia alliance could also eventually include Continental Airlines of the US. It is in negotiations with Northwest. Alitalia and KLM also want to forge airline tie-ups in Asia.

However, the partnership between KLM, Europe's fourth largest carrier, and Alitalia, the seventh biggest, will stretch beyond the competing alliances by integrating more fully their respective operations rather than simply co-operating on frequent-flyer programmes and code sharing.

As an initial step, the two airlines launched last month joint cargo operations to 16 destinations and co-ordinated passenger services to Australia and southern Africa.

Alitalia and KLM plan to develop a European airport hub network around their hubs of Milan Malpensa and Rome Fiumicino and Amsterdam's Schiphol. Both have had difficulties with their hubs: Alitalia with the unhappy opening of the new Malpensa airport and KLM with Schiphol's noise constraints.

The Dutch government next month is due to decide by how much traffic may grow at Schiphol, as well as on a new airport site when Schiphol's capacity is saturated.

While KLM has warned that its earnings per share might fall by up to 20 per cent in its financial year to end-March 1999 because of the difficult trading conditions, Alitalia recently confirmed it expected net earnings this year similar to last year's L438bn profit. The 1997 profits also included one-time gains of L362bn.

Alitalia is planning to invest L4,300bn over the next three years with 80 per cent of the total to renew its fleet.

The KLM-Alitalia alliance could also eventually include Continental Airlines of the US

Philippine telecom groups to discuss alliance

By Tony Tassell in Manila

The long-awaited consolidation of the Philippine telecommunications industry took a further step forward yesterday with two smaller carriers announcing talks over a possible alliance.

The move by Globe Telecom and Bayan Telecommunications comes just days after First Pacific, the Hong Kong-headquartered conglomerate, took a controlling stake in Philippine Long Distance Telephone, the country's dominant carrier, for $749m

The move by First Pacific has been widely seen a catalyst for consolidation among the ranks of small telecom operators in the Philippines. The country has 11 international phone gateway operators, five cellular phone operators and 73 fixed-line companies.

PLDT, which had a near-monopoly before telecoms liberalisation began in the early 1990s, dominates the industry and its market share is set to grow further after it is merged with First Pacific's Philippine operations.

Analysts say the combined clout of the combined companies and a drive to improve efficiency under the new management will force many of the smaller operators to merge.

"Consolidation is a necessary step for many of the smaller operators if they really want to compete with the combined force of PLDT and First Pacific," said Raymond Ricafort, analyst with Merrill Lynch.

In a statement yesterday, Globe said it was in talks with Bayantel as well as other telecom carriers over "various forms of potential alliances and co-operation".

Globe is owned by Ayala Corp, the blue-chip Philippine conglomerate, and Singapore Telecom. Bayantel is a unit of Benpres Holdings, another Philippine conglomerate with interests taking in television and power distribution.

Mr Ricafort said Globe has a 9.5 per cent share of the cellular market and about 4.5 per cent share of the fixed line market. In comparison, Bayantel had a 8 per cent share of the fixed line market and a significant cellular operation.

NEWS DIGEST

AIRLINES

Sale of aircraft helps Thai Airways to 32% advance

The sale of eight aircraft helped Thai Airways International, the country's state-owned national airline, to a full-year net profit of Bt3.7bn ($10.2m), up 32 per cent from the year before. Profits were boosted by the Bt4.5bn in non-operating income earned from the disposal of the aircraft, bringing the fleet size down to 73 aircraft.

This extra income from disposals almost completely offset Bt5bn in foreign exchange losses on the group's foreign currency debt, 73 per cent of which is in US dollars. Operating profits were up 27 per cent to Bt5.7bn on revenue ahead 20 per cent to Bt105.5bn.

Analysts said the increase, though below expectations, was due to continued strong performance on long-haul routes, buoyed by aggressive price cutting.

Thai Airways will pay no dividend this year to offset accumulated foreign exchange losses from previous years.
Ted Bardacke, Bangkok

CONSUMER PRODUCTS

Kao in deal with Novartis

Kao, the Japanese maker of household consumer products, has reached a basic agreement with Novartis Consumer Health of Switzerland to create a joint venture in Japan. Kao said yesterday that the venture would be launched between January and March 2000. Details, including the areas the venture would cover, had yet to be worked out but the operations may include marketing Novartis's over-the-counter pharmaceuticals and health foods in Japan and developing and selling new products.
AP-DJ, Tokyo

INVESTMENT BANKING

Gordon Dyal

In yesterday's FT, a headline incorrectly described Gordon Dyal as Morgan Stanley Dean Witter's mergers and acquisitions "chief". Before moving to Goldman Sachs, he was a managing director in the firm's M&A department.

50-year Swiss bond unlikely to set pulses racing

Lack of liquidity may restrict appeal of new sovereign issue, writes **William Hall**

The Swiss government's decision to issue a 50-year government bond breaks new ground in the maturity of debt issued by sovereign borrowers. But its initial reception suggests that Switzerland's "half-century" bond is unlikely to capture the imagination of the investment community.

Most governments in industrialised countries issue bonds of up to 30 years maturity. But Switzerland is the first country in recent memory to issue a 50-year bond. It carries a 4 per cent coupon and was priced to yield 4.095 per cent.

It is not Switzerland's first attempt to tap this segment of the market. In 1909 it issued a 50-year bond with a 3.5 per cent coupon. However, the gap between Switzerland's last 50-year bond and its latest issue suggests that demand for this maturity is limited, despite Switzerland's triple-A credit rating. It is understood that the Swiss government took SFr200m of the new bond and total bids of SFr265m at the auction resulted in just SFr189m being sold.

The Swiss government has issued around SFr40bn of bond issues, so the SFr189m raised this week will not make much of a dent in its appetite for funds to finance a government debt which now tops SFr100bn.

The new bond is targeted at those Swiss investors which are required by law to earn a minimum 4 per cent on their funds under management. However, analysts questioned whether there would be much demand for the paper given its limited liquidity. Normally, investors prefer issues of between SFr2bn to SFr4bn.

Peter Thomann, who heads the Swiss government's treasury operations, admits that this week's issue is an experiment. Until recently Swiss government issues ranged between eight and 15 years. However, it now has issues ranging from two years to 30 years in its fund-raising armoury, and the latest bond fixes a new point on the yield curve.

Beat Schwab, of Credit Suisse First Boston, said the issue highlighted the steepness of the yield curve at the short end. The average yield on Swiss government bonds is 2.42 per cent and the gap between 10-year and 30-year government paper is around 120 basis points. By contrast, the 50-year bond is only yielding 35 basis points more than the 30-year bond.

The new bond is targeted at those Swiss investors that are required by law to earn a minimum 4 per cent on their funds under management

Mr Schwab said the new bond might appeal to eurosceptic foreign investors bearish about the prospects for the single currency. The Swiss franc is a traditional safe-haven, and short-term Swiss interest rates are 200 basis points below comparable German rates. But lack of liquidity will severely restrict its appeal.

Analysts are split on whether the Swiss franc will assume greater importance as investors seek to diversify their portfolios or will be marginalised by the Euro. But clearly the Swiss government at least believes its currency will still be circulating in 50 years' time.

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Hyundai secures more debt relief

By John Burton in Seoul

Hyundai Motor will receive further debt relief for its purchase of the Kia motor group as it ended negotiations with Kia's creditor banks on the takeover. Hyundai is due to sign a contract to acquire 51 per cent of Kia Motors and its truck division, Asia Motors, on December 1.

Creditors agreed to an additional debt write-off of Won219bn ($178m), bringing the total debt relief offered to Hyundai to Won7,390bn after more unreported debts were discovered at Asia Motors.

Hyundai, Korea's largest carmaker, had initially asked for a write-off of Won7,300bn, or 80 per cent of Kia's debt principal, when it bid for the group. The demand was cut to Won7,170bn when Hyundai's bid was endorsed by creditors early this month.

The new debts were discovered during a subsequent review of Kia's accounts by Hyundai. Hyundai said it would accept the latest debt offer by creditors.

SECURITIES REPORT SAYS INDUSTRY FACES SLUMP IN OPERATING PROFITS AFTER SUMMER VOLATILITY

Market turmoil threatens Canada brokers

By Scott Morrison in Toronto

Canada's securities industry is thought to be entering a period of difficult adjustment after market volatility in August and September wiped out third-quarter earnings and heightened the need to cut costs.

A recent report by the Investment Dealers' Association of Canada, a self-regulating body representing 170 member firms, said the industry in the third quarter suffered a collective C$19m (US$12m) loss, the first quarterly loss since 1991. The IDA said that operating profits across the industry in the third quarter fell 92 per cent to C$35m. This compared with average quarterly operating profits of nearly C$500m over the past two and a half years.

However, while analysts said the industry was already rebounding from the third quarter as market activity gathered momentum, they warned that 1999 earnings would be only half those reported over the past several years.

That fact would force Canada's securities firms to accelerate cost-cutting measures by laying off more employees, reducing capital expenditure on technology and dropping less profitable lines of business. A number of Canadian and US investment banks have already announced job cuts.

Some analysts speculated that the pace of consolidation in the Canadian industry might increase, given that market volatility in August and September put pressure on all firms. The IDA said institutional, integrated and retail firms were all hit by market turmoil, which pushed industry revenue down 27 per cent to C$1.5bn for the quarter.

The report showed a decline in all revenue streams, including commissions, underwriting, as well as debt and equity principal trading. Institutional firms reported that revenues declined by 46 per cent compared with a 28 per cent drop at the integrated and retail groups. Many of Canada's largest banks reported substantial trading losses due to recent market volatility.

Canada's securities industry has undergone significant consolidation in recent years as the country's top five banks have moved to dominate the securities market. Several non-bank-controlled firms have already been taken over this year, including Midland Walwyn, which was the largest Canadian independent brokerage until it was acquired by Merrill Lynch for C$1.3bn.

Brendan Caldwell, vice president at Caldwell Securities, said most, if not all, firms ought to be able to weather one bad quarter, but he remarked that bank-controlled dealers might consider it an opportunity to justify acquisitions of smaller groups.

Others suggest that the focus on cost-cutting by bank-controlled dealers would dissuade them from acquiring smaller firms, a scenario perhaps more disturbing for financially troubled independent groups. "It's live or die for the boutiques," said one analyst.

Trouble develops as Polaroid stumbles

The instant photography group must increase sales to survive, writes **Victoria Griffith**

The bad news has been piling up this year for Polaroid, the instant photography company.

Over the past 12 months, the group's stock price has fallen by more than 45 per cent, making it one of the worst performers on Wall Street. Corporate results have been dismal. In the third quarter, sales dropped 13 per cent to $446.8m, operating profits 18 per cent to $41.6m.

A decade ago, the company rejected an offer of $3bn from raider Stanley Gold via Shamrock Holdings. Today, the group has a market value of just one third that price. "It will take a lot to pull Polaroid out of the death spiral it is in," says Rebecca Runkill, an analyst at Morgan Stanley.

Next year's sales performance will be crucial for the Massachusetts-based group. It has just started to roll out a series of new products; their reception by consumers could make or break the company.

"This company has to show that it can register some top line growth," says Ted Kunst of Lehman Brothers. "Its share price won't move until then."

Polaroid must prove that instant photography, an expensive novelty that consumers have become increasingly unwilling to pay for, still holds appeal. There are some glimmers of hope.

Although it has taken a lot longer than investors had hoped, chief executive Gary DiCamillo, who took over in 1995, has, indeed, remade the company.

Edwin Land, perhaps the first great high-technology pioneer of Massachusetts, established Polaroid in the 1940s. He took the group to greatness by creating a corporate culture that stressed serious research and development projects.

The group has poured money into developing a digital camera and printer. While its initial offerings look appealing, they are up against very stiff competition in that sector

Yet the old Polaroid looked down upon marketing; as a result much of the research failed to make it out of the laboratory. The corporation also frowned on frivolity. Although many of its customers used the cameras as a fun way to liven up parties, Polaroid concentrated on making top-quality, high-priced items.

The company no longer takes itself too seriously. In fact, its most promising new products are toys for children under 17. Polaroid's new "Barbie" instant camera, which retails for under $30, is one of the hottest toys of the Christmas season, according to USA Today.

In addition The company has created instant film that children can draw on, and also plans to launch a camera that turns photographic images into stickers.

"Instant imaging is perfect for kids," says Sandra Lawrence, who has spearheaded the company's toy efforts. "They want instant gratification and they want to be in control. They don't want to wait a week until Dad gets around to picking up the photos from the print shop."

Another promising new product is a toy for adults: a disposable instant camera that retails, with film, for under $18. The camera will be launched in Europe and the US early next year; so far early results from test markets look very positive.

However, Polaroid hasn't abandoned its more serious side. One of its few areas of growth this year has been instant imaging for official identification documents. The company just won a new contract to provide photographs for UK drivers' licences.

And the company is now using its always excellent research and development capabilities to address some of the more vexing questions of toy design. "You wouldn't believe how difficult it was to get the right shade of "Barbie pink"," says Ms Lawrence. "Mattel [which licenses Barbie's brand name] is very particular about that, and the colour pink tends to leak light out of the camera [which would spoil the photograph]."

Meanwhile Polaroid faces some daunting financial challenges. The economies of emerging markets, which the group had been counting on for sales growth in its mature imaging products, are floundering. The group has poured money into developing a digital camera and printer. While its initial offerings look appealing, they are up against very stiff competition in that sector.

Fuji Photo Film, the Japanese photographic group, says it is going to start selling instant film – historically a large money-maker for Polaroid, and one in which it has enjoyed a near-monopoly until now – in the US and Europe. Some analysts view the toy market, while promising, as too unpredictable to add much comfort.

Yet Polaroid finally seems to be turning out the sort of products that could provide real consumer appeal: whimsical cameras for adults and children to play with. Whether it is all too little, too late, will become clear next year. If these new toys start to build top-line growth for the group, all will be well. If not, Polaroid will probably continue on its downward spiral.

Gary DiCamillo: has remade the company since taking over in 1995

DoubleClick links with UK internet group

By Christopher Price

DoubleClick, the US internet advertising company, yesterday made its biggest move in the European market to date with an agreement to manage the advertising sales for Freeserve, the UK's second biggest internet service provider (ISP).

The move underlines the rapid growth of the UK internet market, which is attracting growing interest from US internet groups, as well as advertisers. The deal will also strengthen the position of Freeserve, the UK's youngest ISP, which is owned by Dixons, the domestic electrical retail chain.

Freeserve was launched in September as the UK's first free ISP. It has since attracted some 476,000 users, putting it only slightly behind America Online, the market leader, with 500,000 subscribers. Analysts expect Freeserve to quickly overtake AOL, however.

Andy Mitchell, managing director of DoubleClick UK, said the attraction of the Freeserve deal was the ISP's rapid expansion in terms of both users and services. "We see Freeserve's genuinely free offer of internet access as playing a major part in driving and broadening the UK's internet consumer base."

Freeserve currently offers 12 channels, including news, sport, entertainment, weather and business information. Yesterday it also announced that Carlton Online, part of Carlton Communications, would begin supplying a further two channels on films and games.

Mark Danby, Freeserve general manager, said the attraction of DoubleClick was partly due to the group's international presence, but also because of its Dart software, which enabled detailed monitoring of site viewings and transactions.

DoubleClick has previously signed advertising deals with Emap, the big UK magazine publisher, and MTV Europe, the satellite television station.

Bids presented in Mexico airport sale

By Henry Tricks in Mexico City

Six bidding groups, most with heavy European participation, yesterday presented technical and financial bids for the first package in the part-privatisation of Mexico's airport system.

The bids were for a group of nine airports in south-east Mexico, including the popular Caribbean tourist resort of Cancun, which participants hope to turn into a hub for connecting flights from Europe to South America and the Caribbean.

The package is expected to require investment of about $200m, though financial bids will not be opened until the technical proposals for running the airport chain have been accepted by the government.

The winner, which will receive up to 15 per cent of shares and management control of the airport, is likely to be announced next month. The remaining shares will be issued in public offerings.

Bidding groups included Aeropuertos de Paris, Aena of Spain, Schiphol International from the Netherlands, and Italy's Esercizi Aeroportuali. Aeroports de Montreal took part from Canada, and from Mexico the construction groups ICA and Tribasa and the shipping giant TMM.

صكتا من الاصل

RETAILERS SIR RICHARD GREENBURY STILL CASTS LARGE SHADOW OVER CHAIN DESPITE AGREEMENT TO RETIRE A YEAR EARLY

Investors sceptical about new era at M&S

By Robert Wright and Peggy Hollinger

Sir Richard Greenbury, chairman of Marks and Spencer, yesterday made an unexpected concession in the company's power struggle, announcing plans to retire earlier than expected after the appointment of a new chief executive.

Peter Salsbury, managing director for general merchandise and Sir Richard's preferred candidate, was named chief executive over his rival Keith Oates, deputy chairman. Sir Richard, who earlier this year said he would retire at 65, will now retire at 64 in July 2000.

The casualty yesterday was Mr Oates, whose bid for the top job sparked three weeks of damaging speculation over the company's future leadership. He will now take early retirement at the age of 56.

Mr Salsbury's appointment received a lukewarm response from some M&S shareholders and analysts, and the shares tumbled 24½p to 421p.

Investors questioned whether he would be given a free hand to run M&S with the forceful Sir Richard still chairman.

"I don't think it does solve the problem", said one large shareholder. "You have a sense it is more of the same." He expressed concern over whether the new structure would solve trading problems which contributed earlier this month to the group's first profits decline in 30 years.

Sir Martin Jacomb, the most senior non-executive, said he believed M&S now had "the best people to take the business forward". Both Mr Salsbury and a non-executive stressed Sir Richard had agreed not to give advice unless asked.

The nominations committee had been careful to include a written description of Sir Richard's job in its proposals to the board meeting which appointed Mr Salsbury on Wednesday.

Mr Salsbury said the company's 16 executive directors had been "particularly emphatic that they wanted to see this demonstrated formally but also in the flesh". He admitted there was "an awful lot of difference between writing something on paper and seeing it in action".

Although Sir Richard would be less involved in the day to day running of the business, Mr Salsbury said no limit on his working week had been imposed. "We haven't referred to the working time directive on this one", he said.

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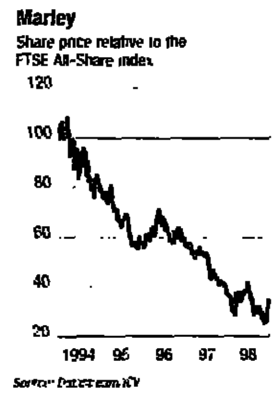
COMMENT

Marley

How is this for chutzpah. John Mansfield, a lossmaking shell, has launched a hostile paper bid for Marley, a mere 17 times its size. The £270m offer values the beleaguered building products group at less than half forecast sales. The entertaining scrap is basically about management. Mansfield, led by Stuart Wallis, ex Rexam and Fisons, and David Jones, also ex-Rexam, claims it can improve the lot of Marley's depressed shareholders. Axing parts of Marley's business, such as plastics, would be welcome. But whether the rest can be nailed together in a "synergistic floor and wall-covering business" is open to question. A rival bid involving cash would surely get a warmer welcome from shareholders. Investors P&DFM, though, are backing Mansfield now. It seems a roundabout way of bringing in new management.



Source: Datastream/ICV

Regional brewers

The bar-room brawl has begun at last between regional brewers. While some have abandoned actual beer brewing, others are still in it from hops to lips. Wolverhampton & Dudley and Marston, Thompson and Evershed fall in the latter category and they are being squeezed. Bitter has been losing out to lager, and the investment splurge has left too many theme pubs chasing too few consumers. Wolverhampton & Dudley runs a tight ship, creating its resilient results. But further improvement looks hard. Hence its welcome defensive bid for Marston's. Marston shareholders have an intriguing choice. They can back the new management's original plan, which is to sell a chunk of its pub estate, return £80m to shareholders and invest in brands like the trendy Pitcher & Piano chain and good old Pedigree beer. But investors must have faith in the investment strategy.

If they want something more defensive, they should go for Wolverhampton's cash and a residual stake in a cost-cutting merger. This does not mean accepting Wolverhampton's first offer of 11½ times Marston's historic earnings. They should call the bidder's bluff by voting for the pub sale. But any top-up from Wolverhampton would probably be in shares. Its offer already stretches interest cover to little more than three times – counting the £12m savings. The logic is sound, the numbers are racy. But investors in this underperforming sector can no longer settle for a quiet life.

Virgin puts off Our Price sale

By Jonathan Ford

Virgin Entertainment has postponed the sale of its Our Price music chain until next year because of the unwillingness of potential venture capital purchasers to proceed without evidence of satisfactory Christmas trading.

The company, which owns Richard Branson's interests in cinemas and retailing, has been in advanced talks since early October with PPM Ventures, Prudential's venture capital arm, about selling Our Price. However, PPM is understood to have decided to defer further negotiations until January.

"It got to a point where they wanted the comfort of waiting until after Christmas and we were keen to keep the cash flow," said Stephen Murphy, finance director.

Mr Murphy also blamed the unsettled state of the debt markets for the delay. He said PPM and another potential purchaser had found it difficult to raise money for the deal, though conditions were improving.

Financial investors have been wary of music retailing since the troubled buy-out of HMV Media, one of the UK's largest chains, earlier this year. Their concerns have intensified with the subsequent slowdown in consumer spending.

The 229-strong Our Price chain has been for sale since the summer, when Virgin Entertainment acquired it with 88 Virgin Megastores in the £145m ($240m) buy-out of WH Smith's 75 per cent interest in Virgin Our Price, their UK music retailing joint venture.

Virgin Entertainment hoped to raise £85m from Our Price as part of a broader refinancing of its £350m of debt, much of it short term. In the event, it is only thought to have been offered about £60m.

The company has been forced to postpone another element of the refinancing. Last month it shelved a £200m high-yield bond issue, citing market uncertainty following the Russian default and subsequent flight to quality. It needs fresh capital to repay a £112.5m bridging loan it took out with Goldman Sachs, Bankers Trust and Bank of Nova Scotia to finance the Virgin Our Price buy.

RESULTS

	Period	Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Adare ♣	6 mths to Oct 31	79.8	(75.8)	8.82♠	(7.24♥)	43.86†	(39.65)	5.38	Feb 7	4.68	-	11.4
BPB	6 mths to Sept 30	698.9	(708.9)	68.6♠	(89)	8.5	(11.5)	4	Apr 9	3.8	-	11
Bristol Utd Press	6 mths to Sept 30★	36.7	(33.8)	11.4♥	(6.93♥)	32.43	(19.24)	6.75	Jan 27	6	-	17
Brockhampton	6 mths to Sept 30	14.1	(14.1)	4.28	(4.18)	6.5	(6.3)	1.7	Jan 15	1.6	-	4.8
Caledonia Invs	6 mths to Sept 30	28	(31.5)	81.2♥	(22.4)	69.6	(17)	7	Jan 14	6.5	-	20.5
Comino Φ	6 mths to Sept 30	8.72	(5.09)	1.27	(0.83)	7.24†	(5.3)	1.25	Jan 28	-	-	2.5
CPL Aromas	6 mths to Sept 30	17.9	(17.9)	0.909	(1.38)	4.8	(7.4)	1.9	Jan 4	1.9	-	4.8
Dawson Hldgs	Yr to Sept 30	738.5	(606.2)	12.8	(13.8♥)	13.3†	(14.2)	3.1	Jan 27	2.8	5.3	4.8
DBS Management	6 mths to Sept 30	77.5	(72.6)	4.2	(0.478♠)	6.3†	(0.6)	1.65	Jan 19	1.4	-	4.5
Diploma	Yr to Sept 30	292.9	(257.5)	13♠	(21.6)	11.1	(24.9)	10	Jan 12	10	14.5	14.5
Electronic Data	Yr to Sept 30	11.5	(12.6)	2.21	(1.74)	5.89	(4.5)	1.533	Apr 6	1.533	2.2	2.2
Fuller Smith Turner	6 mths to Sept 26	61.4	(55.6)	6.53	(6.06)	17.89	(16.73)	3.82	Jan 15	3.6	-	11.35
Latchways	6 mths to Sept 30	3.18	(2.14)	1.12	(0.402♠)	7.23†	(3.17)	2.5	Mar 1	-	-	4.2
London Merchant	6 mths to Sept 30	20.8☐	(19.8☐)	35.1♥	(69♥)	10.84	(28.29)	0.9	Jan 15	0.9	-	5.3#
Merrydown	6 mths to Sept 30	7.82	(11.5)	1.68L♠	(0.94L♠)	7.23L†	(6.73L)	-	-	-	-	nil
Pennon	6 mths to Sept 30	220.2	(187.1)	71.5♥	(68)	50	(30.9L‡)	14.7	Apr 8	13.2	-	41
Perpetual	Yr to Sept 30	1,482	(1,276)	72.8	(59.6)	176.74	(148.38)	38	Jan 12	32	75	62
Ransom (William)	6 mths to Sept 30	4.35	(4.76)	0.33	(0.913♥)	1.45	(4.92)	0.89	Jan 13	0.89	-	2.68
Regalian Properties	6 mths to Sept 30★	27	(24.6)	0.279L	(2.22)	0.51L	(1)	0.25	Apr 7	0.475	-	1.25●
Sedgemoor	6 mths to Sept 30	30.4	(50.7)	4.15	(7.17♥)	1.7	(3.2)	0.6	Jan 6	0.5	-	2
Syltone	6 mths to Sept 30★	45.3	(39.3)	2.73	(2.01)	6.64	(5.14)	2.25	Feb 4	2.1	-	6.85
Symonds	6 mths to Sept 30	23.8	(22)	2.22	(0.84L♠)	2.2	(0.5L)	0.6	Jan 15	0.6	-	1.8
Tricorder Tech Φ	6 mths to Sept 30	-	(-)	0.861L	(0.256L)	5.66L†	(2.28L)	-	-	-	-	-
Waddington	6 mths to Oct 3	165.1	(169.8)	8.94♠	(17.1)	4.74	(11.74)	5	Apr 7	4.7	-	11.5
Wolves & Dudley	53 wks to Oct 3	285.7	(275.6)	44.2	(40.2♠)	50.6♦	(43.9)	13.31	Jan 29	12.1	20.57	18.7
Yorkshire Water	6 mths to Sept 30	340.4	(322.5)	118	(115.7)	30.2	(8.3L‡)	6.75	Apr 6	6.15	-	20.35
York Waterworks	6 mths to Sept 30	6.07	(4.61)	1.53	(1.84)	17.3	(21.1)	4.95	Jan 19	4.55	-	13.85

Investment Trusts	Period	NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Fleming Asian	Yr to Sept 30	46.18	(-)	1.42	(-)	0.85	(-)	0.7	Jan 28	-	0.7	-
Gartmore Shared	6 mths to Oct 31	128.7	(173.4§)	3.41	(3.47)	5.14	(5.22)	2.55⁑	Dec 31	2.475	-	9.9
Personal Assets	6 mths to Oct 31	1,722	(1,802)	0.263	(0.474)	0.91	(2.08)	125	Nov 27	120	-	245
Shire Income	6 mths to Sept 30	401.5	(475.7)	2.71	(3.57)	9.41	(12.55)	4.85¤■	Jan 29	4.2	-	16.8
3i	6 mths to Sept 30	527	(521)	67.3	(60.2)	11.3	(10.1)	4.3	Jan 29	3.9	-	10.3

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♣Irish currency. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ♦On decreased capital. ★ Comparatives restated. ☐ Gross rental income. #Excludes special. ‡After windfall tax. ΦAim stock. ● Includes final of 0.775 to be paid on April 7. §At April 30. ⁑Second interim; makes 5.1p to date. ¤Includes foreign income dividend element. ■ Second interim; makes 9.05p to date.

Omnicom in talks to acquire AMV

By Susanna Voyle

Shares in Abbott Mead Vickers jumped more than 13 per cent yesterday after the advertising agency said Omnicom, the US marketing group, was discussing a bid for it.

Peter Mead, one of the three founders of the business, said Omnicom, which owns 27.7 per cent of AMV, could make a share-exchange offer. He stands to realise more than £3m ($5m) from his personal holding.

The group – one of the UK's leading agencies, famous for its campaigns for Yellow Pages, Volvo and J Sainsbury – refused to issue more details. But sources close to the deal said Omnicom was in the process of finalising a bid valuing AMV at up to £350m. An announcement could be made as early as next week.

Analysts said a deal could signal more bids in the sector – with Saatchi and Cordiant seen as the most likely bid targets. AMV shares surged 48½p to 408½p yesterday while Saatchi shares were up 9p at 134p and Cordiant rose 7½p to 111½p.

Lorna Tilbian, analyst at West LB Panmure, said the deal highlighted a trend of buying by US groups. "Omnicom has taken the best of our agencies. The cream of UK advertising businesses are now US owned."

Marston rejects W&D bid

By Charles Pretzlik

Wolverhampton & Dudley Breweries, the UK's largest regional brewer, yesterday launched a £262m ($435m) hostile takeover bid for Marston, Thompson & Evershed, its Midlands-based rival.

The move was welcomed by analysts who believe consolidation among the regional brewers is essential to fight off competition from national brewing groups.

Marston immediately rejected the offer as "unwelcome" and "wholly inadequate". Marston's shares jumped above the offer price, closing up 16 per cent, or 11p, at 287½p.

Wolves' bid values each Marston share at 280p. The offer consists of 182p in cash and 0.235 new Wolves shares. Marston shareholders will also be entitled to retain the announced interim dividend of 3.3p.

David Thompson, managing director of Wolves, said the acquisition "would create a platform which is more competitive in facing the national brewers."

It was stung into action by Marston's decision this month to dispose of its tenanted pubs in a securitisation deal with Nomura International, the Japanese investment bank. The move is expected to net more than £157m.

Mr Thompson said the Wolves bid was conditional on the Nomura deal being rejected by Marston shareholders on December 9.

Hostile offer for Marley

By Jonathan Ford

John Mansfield, a small lossmaking timber company, has launched a hostile all-share bid for Marley, valuing the underperforming building materials group at £272m ($452m).

Mansfield, valued at just £16.1m, intends to break Marley up if the bid succeeds, selling off the plastics and concrete divisions and retaining only its flooring business.

Stuart Wallis, chairman of Mansfield, said the bid offered shareholders in Marley the chance to get rid of the group's "abysmal management".

Mansfield has the support of PDFM, Marley's largest shareholder, which has undertaken to accept the bid for its 14.9 per cent stake.

Unusually, the fund manager has also underwritten £1.5m of Mansfield's costs should a third party step in with a higher offer.

Marley immediately advised shareholders to reject the offer.

Mansfield is offering 15 of its shares for every Marley share. If the bid succeeds, Marley shareholders will have 94 per cent of the enlarged Mansfield group.

At Mansfield's closing price of 6¼p yesterday, down ¼p, the bid values each Marley share at 93¾p, a premium of 9.6 per cent to Wednesday's closing price. Marley shares closed at 98¾p, up 13p.

THE MARKS AND SPENCER SUCCESSION

Clash of personal passion and corporate rulebook

Peggy Hollinger analyses the bitter power struggle that led to Peter Salsbury's selection as chief executive of the UK's best-known retailer

It was a stand-off. On one side, Keith Oates, unruffled, his eye on the top job. On the other, an incandescent Sir Richard Greenbury, chairman and chief executive of *Marks and Spencer*, determined to stand his ground. In the middle, a host *of uncomfortable directors*.

All had gathered for an emergency meeting at the company's *Baker* Street headquarters on November 9 to settle an unseemly power struggle. Sir Richard himself had returned abruptly from a business trip to India following media reports that Mr Oates was making a bid for promotion to chief executive in his absence.

Sir Richard had called in the non-executive directors to hear his accusations against Mr Oates, his deputy. Sir Richard accused him of disloyalty to the business, *according to friends of Mr* Oates. He demanded that Mr Oates be removed from the board immediately.

The meeting went on for five hours. Mr Oates remained calm. He delivered the statement he had prepared when he discovered Sir Richard was back: "If *friends of mine, who have* witnessed a campaign denigrating everything I have done in M&S, decided to defend me in the press, then there is nothing I can do about it."

The four non-executives present were Sir Martin Jacomb, chairman of Prudential, one of M&S's largest shareholders, Brian Baldock, former deputy chairman of Guinness, Dame Stella Rimington, ex-MI5 chief, and David Sieff, descended from the company's founder and the last family member on the board.

At least two of them backed Sir Richard's view that Mr Oates was not the right candidate to become chief executive when the chairman split his roles next year. But throughout the *gruelling session*, even they resisted Sir Richard's demands for Mr Oates's dismissal, according to his supporters.

It was a rare defeat for the man who had ruled Britain's most respected retailer with an iron fist for 10 years. But he had no intention of giving up the top job.

So began a fascinating case study in corporate governance in Britain. *It starkly* exposed the clash between Sir Richard's passion for the *retailing business to which* he devoted all his working life, and the rulebook that he himself helped to create as chairman of the Greenbury committee on executive remuneration.

Keith Oates: dismissed by Sir Richard Greenbury as a mere 'bean counter'

Richard Greenbury took over running M&S in 1988, after 35 years of climbing through the ranks. It was a timely appointment. Under his predecessor, Derek Rayner, the company had expanded into innovative new areas, such as financial services, and taken its first steps abroad.

But *selling clothes to the* masses in the UK remained the group's most important market. When Sir Richard arrived it seemed the sector was in deep trouble, and the company needed a firm hand to guide it through uncertain times.

"Burton was going bust and Next was in trouble," says one retail analyst. M&S, meanwhile, had also admitted that its acquisitions in the US had been ill-judged and badly timed.

"Rick *retrenched the business*, cut costs and rebuilt profits at a time when everyone thought the sky was going to fall in," says another analyst.

Sir Richard's leadership over the next decade saw M&S increase its market share relentlessly in the competitive food and clothing markets, as well as branch out into areas such as jewellery and luggage. In effect, he transformed M&S from a clothing retailer with a food operation on the side into a single-brand depart*ment store*.

His control over every aspect of the business was legendary. Visitors to his cavernous office in Baker Street pass by chairs piled with next season's jumpers, waiting for the chairman's seal of approval on colours, price and quality.

The strategy worked. Profits soared. Shareholders never thought to question *his methods, still less* the delicate question of his successor. Only those inside the business were preoccupied with the succession question, having been told that *eventually the chairman* would split his roles. But they were given no date or idea of how the process would work, according to insiders.

Only when a national newspaper printed one of those familiar angry letters from Sir Richard in the spring – known in the business as Rickograms – did the succession question burst into the open.

On the surface, the issue was straightforward. The *company's accounts state* that senior management should retire at the age of 60. Yet Sir Richard, said he would remain until the age of 65.

The board, he said, unanimously supported the decision – but whose decision it had been was unclear. Nor was there *any mention of* splitting his roles as chairman and chief executive, in line with accepted best practice as implied in the combined corporate governance code published this year.

Baker Street insiders say Sir Richard unilaterally decided to stay on, reluctant to surrender control of the business in which he had worked for 45 years. In fact, he had to win the support of the board to stay beyond his 62nd birthday last July.

The non-executives were strongly in favour of his staying on. According to a staff note from Sir Richard himself, "they needed more time to consider the succession issue and more time to assess the candidates who they requested should be given fresh responsibilities". *According to Sir Richard*, it was widely understood that he would split his roles next year.

But one former colleague says the methods used to get the other directors to ask him to stay on left no room for doubt: "He would take you into his office, sit you down and say, 'you will vote for me, won't you?' There was no choice."

The picture changed when M&S unveiled its £2.2bn onslaught on the global *retailing market. Investors* feared that the UK's merchant prince might not be *able to cut it abroad*, especially when life was getting tougher at home. "Rick's expertise is in the UK, and his touch is less sure abroad," says one colleague.

The company took note of investor concerns. It began an almost unprecedented series of briefings with leading shareholders, which one described at the time as being a "welcome change" to the normally insular corporate culture.

Investors raised the "S *question" and Sir Richard* reassured them that the selection process was in hand. The board had hired consultants to benchmark the internal candidates against outside executives. "They came to the conclusion that the internal candidates were at least as good *as anything that could be* bought on the market," said one director.

For a time at least investors were satisfied. Then disaster struck with the global economic turmoil that forced M&S into a U-turn on its much hyped expansion plans.

Sir Richard's critics say the predicament played into his hands. It allowed him publicly to defer even longer the succession process. He was reluctant to surrender power while his chosen candidate – Peter Salsbury, the managing director for general merchandise – was not quite ready to succeed him. If he stayed until 2001, says one colleague, Mr Oates, now 56, would *simply* be too old to succeed him.

Mr Oates, who joined M&S *in 1984 as finance director*, had long been regarded by outsiders as Sir Richard's heir apparent, a fact that infuriated the status-conscious chairman. When Mr Oates was once described in a newspaper as "the man who fits the M&S suit" Sir Richard forbade him from ever talking to the media again. But some inside M&S regarded Mr Oates as the natural successor. He had considerable international experience and was a natu*ral communicator*.

Mr Salsbury, on the other hand, was hardly known outside the business. A grey man, apart from his florid complexion, Mr Salsbury would have to be introduced to investors before he could be put forward as a serious candidate.

Sir Richard was convinced Mr Salsbury was the right man for the job. He, like Sir Richard, had spent his entire working life at M&S. The chairman regarded him as a real retailer, worthy of M&S, and the man most likely to protect the company's unique culture that Sir Rich*ard had nurtured for years*. Mr Oates he dismissed as no more than a "bean counter".

On November 3, M&S set the retail world on edge with its first profits fall in 30 years. "It is a bloodbath at the moment," said Sir Richard.

Peter Salsbury: Sir Richard Greenbury regarded him as a real retailer worthy of Marks and Spencer as the man most likely to protect its unique culture

That morning, aware that the appalling results would cast his own future into question, Sir Richard and the board prepared a short statement.

"*The succession programme* is under way and an announcement will be made *in due course*," *Sir Richard* told his audience. Although the meeting went for almost two hours, he was in a particularly good mood. He joked that he had taken the advice of his friend Alex Ferguson, the Manchester United manager, not to read the papers any more. Given the dire results it was particularly timely advice.

The next morning Sir Richard set off for his long planned trip to meet suppliers in India. Hoping to com*bine holiday with business*, he probably thought the worst was behind him. But back in London, Mr Oates had already made an informal pitch for the top job.

He had approached non-executives at the results meeting with his plans for M&S. He told them that he wanted to decentralise the business, to radically *alter its outdated* sourcing policies and to eliminate the bureaucracy *which he felt was* holding the business back.

The non-executives *seemed to* like his ideas. But an authoritative report two days later that the new leadership structure was to be announced in May, and that Mr Salsbury was tipped for the chief executive post, left Mr Oates furious.

That evening he collared Brian Baldock, one of the two most senior non-executives, in his office. Mr Oates accused him of pushing Mr Salsbury in the press, and denigrating his own abilities, which the non-executive furiously denied.

Mr Oates was convinced *there has been a conspiracy* against him, led by Sir Richard. The next day he con*fronted press officer Brian* Hudspith, accusing him of planting stories in the media which suggested he was out of the running. Mr Hudspith too denied the accusations.

Mr Oates decided to take matters into his own hands. He began to rally support both inside and outside the business, and encouraged his allies to bring the issue to a head in the weekend press.

Sir Richard may not have been reading the papers. But *he did read the cuttings* which poured out of his fax machine in his five-star Indian hotel. He was livid.

That very night a grim-faced M&S chairman was seen being escorted on to flight BA 138 from Bombay back to London, almost two weeks earlier than planned.

Early the next morning he stormed into M&S headquarters unannounced, ordering an immediate communications blackout. Mr Oates was confronted, in front of the directors present for the normal Monday operational meeting.

"Everybody was appalled by what had happened," says a person who spoke to directors on the day. "There was real shock on the board."

But the immediate plan was to close down leaks and *start the selection process* in earnest. By the end of the five-hour meeting, the non-*executives had decided that* every member of the board would be canvassed in pri*vate - with neither the chair*man nor his deputy present.

Over the course of the next two weeks, the confidential interviews revealed there was more support for Mr Oates's views than the non-executives originally thought. Directors say they "feel like a proper board for the first time".

Last Tuesday, at 6pm, Sir Martin Jacomb, the most *senior of the non-executives*, was sitting in his Baker Street office. He was waiting for Mr Oates, due at any moment to return from Diageo, the drinks and food group, where the deputy chairman was also a non-executive director.

The exact words that Sir *Martin chose when they met* remain unclear, but Mr Oates never turned up at the *board meeting* the next day which was to vote on the new chief executive. Instead, he took early retirement.

The nominations committee had decided to recommend that Mr Salsbury get the job, with Sir Richard stepping back to non-executive chairman. But, reflecting the concerns raised by the directors in individual interviews, the *non-executives also* presented detailed job descriptions of the chairman's and *chief executive's posts*. Sir Richard, they made clear, would not be able to give any advice to his chief executive unless he was asked for it.

When the time came to vote, Mr Salsbury and Sir Richard were asked to leave the room. Forty minutes later they were called back. "Our recommendations were overwhelmingly supported by the board," said Sir Martin. But nobody would comment on whether there had been any *support voiced for* Mr Oates in the general discussion.

Mr Salsbury was delighted. Sir Richard even more so. Turning to the man he had so staunchly defended in recent weeks and months, he finally sealed the succession with a hug and a handshake.

'Team is in place for new ideas'

Sir Richard Greenbury gives his verdict on the non-executives' conclusion

Sir Richard Greenbury said yesterday that he was delighted with the outcome of Wednesday's board meeting.

The original plan had been to announce that his role would be split at last summer's annual meeting, following his 62nd birthday. *But as a result of the* decision to launch a large-scale strategic review of the business, he had been asked to delay the announcement until next July's annual meeting.

He had not been involved in the process of selection, which had been accelerated *by the recent press coverage*. A group of non-executive directors had spoken to everyone involved and come to a conclusion which had been unanimously accepted by the board on Wednesday.

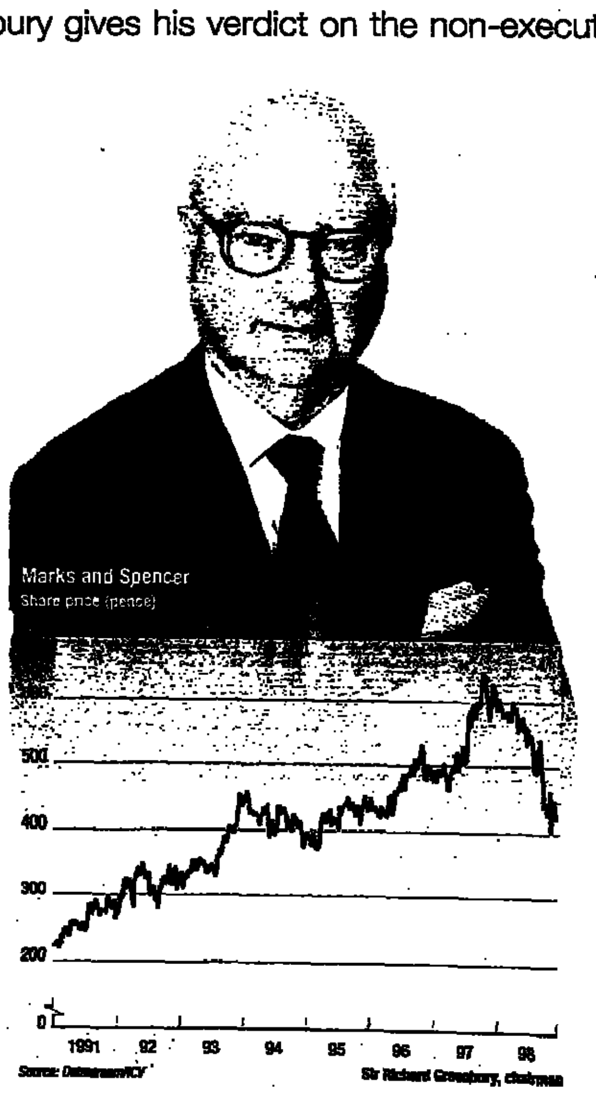
"These non-executives are heavyweight people," Sir Richard *emphasised, men*tioning Sir Ralph Robins, Sir Martin Jacomb, and Sir Michael Perry. "These are not lightweight bums."

Dame Stella Rimington, the former head of MI5, was "quite a toughie, too".

He was certain that their decision to appoint Peter Salsbury as chief executive, while he became non-executive chairman, was the right one.

Keith Oates, who lost out to Mr Salsbury, was a very capable man, but he had never been anything like the favourite to take over as *chief executive*. *Sir Richard* said: "He always had very minimal support."

Emphasising Mr Oates's abilities, he added: "The question is, though: do you think he should be number one?"



Source: Datastream/ICV

Sir Richard Greenbury, chairman

"The time has come for change, for more than just splitting the roles of chairman and chief executive. We want new and fresh ideas, which is why we are doing this review."

Recalling the company's *growth under his leadership*, Sir Richard agreed that the past year had been very tough. "But one bad season does not make a rotten team."

"Over the next decade, we will need a new structure. We will need new thinking."

He said that Marks and Spencer had always been a somewhat secretive business, *but over the years it* had constantly looked at itself critically and adapted its processes to suit changing times.

Sir Richard said the job of a non-executive chairman was to manage the board. The job of a chief executive was to run the business.

"Peter and I have compatible skills," he added. Their personalities were very different, but they liked and respected each other.

He drew a parallel with Lloyds Bank, where as a non-executive director he had helped to appoint Sir Brian Pitman as chairman. He said that Sir Brian had been very hands-on in his time as chief executive of *the bank. But he had also* been "brilliant" as a non-executive chairman.

"The idea you *can't let go* is rubbish," he said. "It's just a different role."

The whole business was now being examined in the review process, to help develop the M&S vision of the future. There had been enormous changes in the business climate in recent years, particularly outside the UK.

Eighteen months ago, Marks and Spencer had made £100m outside the UK. This year, it had hoped to make £120m-£130m. Now, *as* a result of the Asian collapse and the strength of sterling, it would be *lucky to make* £10m.

It was a unique business, with its mixture of *clothing* and foods sales and its reliance on own brands. It had also become much more complex over the years.

No further changes were expected as a result of yesterday's announcement, he said. "The team is in place."

EURO PRICES

EQUITIES

Europe strengthens as Dow rests

EUROPEAN OVERVIEW

By Khozem Merchant

The Thanksgiving holiday in the US usually ensures a quiet day on European markets, but this year proved an exception.

European stock prices moved under their own steam, powered by merger talk. The FTSE Eurotop 100 index rose 52.12 or 1.96 per cent to 2,712.44, while the broader Eurotop 300 climbed 21.75 or 1.90 per cent to 1,168.62. The FTSE Ebloc 100 index, comprising stocks in countries forming part of the first wave of the euro in January, gained 22.96 or 2.40 per cent to 978.93.

The best-performing sectors were cars, which rose 4.58 per cent, healthcare, up 3.71 per cent, and resources, which improved 3.05 per cent.

Oil shares rose sharply on the back of news that Exxon, the world's largest energy company, was in talks to acquire Mobil, the second largest US oil and gas company. If completed, the merger would be the largest ever.

France's Total rose Ecu 5.60 to Ecu 104.70, Elf Aquitaine climbed Ecu 5.20 to Ecu 111.37, Royal Dutch firmed Ecu 9 to Ecu 42.37 and Petrofina climbed Ecu 6.60 to Ecu 337.95. BP, which bought Amoco of the US in a $55bn deal in August, rose Ecu 3 to Ecu 13.75.

The automobile sector was the biggest sector mover. Fiat improved Ecu 2 to Ecu 2.87, continuing the positive form of the past few days.

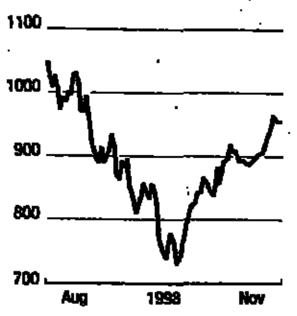
The price was helped by continuing speculation over the remodelling of the Fiat holding company, prompting speculation that it may force more radical restructuring.

Fiat has also been helped by the positive news out of Brazil, the beneficiary of a massive International Monetary Fund-led package, and the strong dollar.

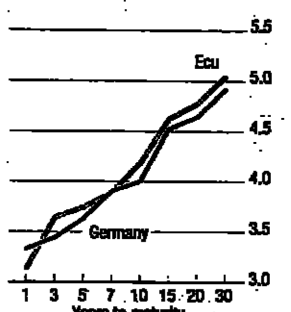
Peugeot rose Ecu 5.80 to Ecu 138.84, the German carmaker Volkswagen firmed Ecu 2.40 to Ecu 71.52 and the recently merged Daimler-Chrysler improved Ecu 3.60 to Ecu 81.29.

The banking sector also moved up. Spanish bank, for instance, firmed on the back of merger talks and the positive news out of Latin America, where Spanish banks have a large presence. Banco Bilbao Vizcaya led the way, rising Ecu 8 to Ecu 17.56 as the market speculated on more consolidation in the domestic sector.

FTSE Ebloc 100
Index



Bond yield curve
Per cent (November 26 1998)



Source: FTSE International, Interactive Data/FT Information

■ THREE MONTH EURO FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.380	96.385	-	96.390	96.375	126	9789
Mar	96.710	96.735	+0.030	96.720	96.710	75	5988
Jun	96.770	96.795	+0.030	96.770	96.770	75	2282
Sep	96.770	96.800	+0.030	96.770	96.770	75	1263

■ THREE MONTH EURO OPTIONS (LIFFE) Ecu1m points of 100%

Strike Price	CALLS Dec	Jan	Feb	Mar	PUTS Dec	Jan	Feb	Mar
96500	0.025	0.325	0.335	0.345	0.140	0.090	0.100	0.110
96625	0.005				0.245			

Est. vol. total. Calls 0 Puts 0. Previous day's open int., Calls 0 Puts 0

■ FTSE EUROTOP 100 INDEX FUTURES (LIFFE) Ecu20 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	2687.0	2739.0	+55.0	2729.0	2687.0	1116	7004
Mar	2737.0	2744.0	+82.5	2737.0	2737.0	2	1080

■ EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX) Ecu10 per index point

	2500 C	2500 P	2525 C	2525 P	2550 C	2550 P	2600 C	2600 P	2650 C	2650 P	2700 C	2700 P	2750 C	2750 P	2800 C	2800 P
Dec	242	18	228	21	198	24	157	33	120	48	87	64	61	88	40	118
Jan	281	51	241	62	204	74	178	90	138	108	110	131	320	81	283	94

Est vol total 0. Prev day's open interest total 9,618. Premiums shown are based on settlement prices.

OTHER INDICES

	Nov 26	Nov 25	Oct 24	1998 High	1998 Low	Since compilation High	Since compilation Low
DJ Stoxx 50	3257.91	3201.30	3223.20	3870.82	2433.07	3870.82	2433.07
DJ Euro Stx 50	3230.34	3167.24	3163.88	3658.48	2419.23	3658.48	2419.23
MSCI Europe	1147.32	1146.67	1151.51	1315.55	908.59	1315.55	510.78

Source: Extel/part of FT Information. *Subject to revision next day. (a) unavailable.

FTSE Actuaries Share Indices — European series

Produced in conjunction with the Faculty and Institute of Actuaries

November 26

National & Regional Markets	Ecu Index	Day's %	change points	Yield gross %	xd adj ytd	Total rtn (Ecu)
FTSE Eurotop 300	1168.62	+1.90	+21.75	2.36	30.52	1209.09
FTSE Eurotop 100	2712.44	+1.96	+52.12	2.37	38.65	971.75
FTSE Ebloc 100	978.93	+2.40	+22.96	2.16	14.85	993.46
FTSE EuroMid	1130.76	+0.95	+10.63	2.91	0.31	1159.74
FTSE EuroMid Ebloc	1180.57	+1.69	+19.77	2.43	0.02	1215.23
FTSE EuroMid Ex UK	1177.08	+1.22	+14.24	2.35	0.02	1198.48
FTSE Eurotop 300 Regions						
Eurobloc	1222.42	+2.36	+28.20	2.06	21.46	1248.35
UK	1092.85	+1.10	+11.87	2.83	49.71	1164.34
Europe Ex-Eurobloc	1125.45	+1.40	+15.56	2.68	38.46	1177.42
Europe Ex-UK	1212.62	+2.30	+27.25	2.12	19.83	1235.13
FTSE Eurotop Industry Sectors						
RESOURCES	897.65	+3.05	+26.60	3.19	29.22	938.69
Extractive Industries	793.17	+0.50	+3.98	4.39	14.54	809.92
Oil, Integrated	867.98	+3.17	+26.68	3.14	21.73	889.00
GENERAL INDUSTRIES	1064.13	+2.60	+26.96	2.59	21.29	1086.61
Construction	880.65	+3.06	+26.17	3.15	11.06	890.89
Building Matls & Merchs	915.48	+1.00	+9.05	2.45	8.96	923.39
Chemicals	865.02	+0.89	+7.61	2.80	17.45	880.29
Diversified Industrials	942.14	+2.10	+19.35	2.52	22.61	963.70
Electronic & Elect Equip	943.39	+3.08	+28.15	7.76	5.41	948.53
Engineering	868.15	+2.25	+19.13	3.86	12.32	879.39
Paper, Pckg & Printing	828.34	+0.93	+7.66	2.81	1.21	829.37
CONSUMER GOODS	1186.06	+1.12	+13.09	1.59	50.08	1254.35
Automobiles	915.05	+4.58	+40.08	2.49	10.25	923.54
Alcoholic Beverages	951.67	+1.28	+12.07	2.82	296.79	1417.71
Food Producers	968.70	-0.31	-3.02	1.57	11.84	980.08
Household Goods & Texts	1022.98	+0.31	+3.13	1.85	7.88	1030.65
Healthcare	918.24	+3.71	+32.83	1.28	13.51	931.98
Pharmaceuticals	1052.19	+1.76	+18.41	1.23	5.27	1057.91
Tobacco	1311.94	+0.79	+10.33	3.88	15.88	1329.97
SERVICES	1174.86	+1.52	+17.55	2.02	22.93	1207.55
Distribution	767.00	+1.40	+10.61	2.84	11.37	775.61
Leisure & Hotels	762.65	+1.11	+8.35	3.27	12.27	772.62
Media	996.31	+0.43	+4.31	2.23	10.68	1008.95
Retailers, Food	1038.59	-0.04	-0.37	1.99	14.17	1053.61
Retailers, General	955.72	-0.73	-7.02	3.28	20.46	975.44
Telecommunications	1120.21	+2.40	+26.25	1.76	13.52	1134.35
Breweries, Pubs & Rests	798.67	+3.88	+29.82	3.32	16.00	812.79
Support Services	971.79	+3.21	+30.26	1.51	9.87	982.10
Transport	962.57	-0.03	-0.25	2.58	18.24	980.32
Information Technology	916.09	+3.12	+27.76	0.40	2.33	918.27
UTILITIES	1471.44	+0.76	+11.10	3.02	57.04	1555.27
Electricity	1099.24	+0.52	+5.72	3.21	27.84	1130.25
Gas Distribution	1223.49	+1.37	+16.59	1.53	93.32	1347.13
Water	1060.01	+0.94	+9.82	4.23	38.72	1100.49
FINANCIALS	1265.26	+2.05	+25.36	2.59	27.52	1299.32
Banks, Retail	879.47	+1.93	+16.65	3.33	13.20	891.53
Insurance	977.77	+2.24	+21.42	1.42	11.79	989.57
Life Insurance	1141.47	+2.29	+25.52	1.71	12.98	1156.29
Other Financial	896.70	+1.24	+10.95	2.19	15.95	901.51
Investment Companies	972.77	+6.09	+55.74	1.40	20.66	990.96
Property	707.65	-0.98	-7.03	3.53	16.01	720.66

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FTSE EUROTOP 300

Name	Price (Ecu)	Chge +or-	Mkt cap Ecu(bn)	Vol (m)	Yld
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

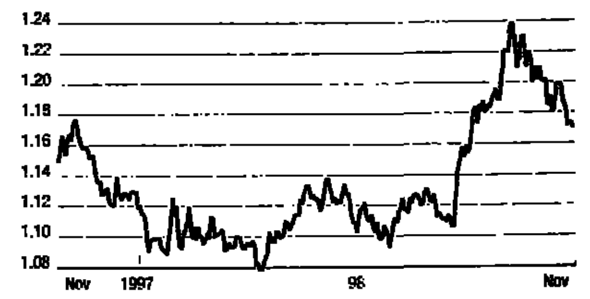
CURRENCIES & MONEY

FT SYNTHETIC EURO RATES

Nov 26	Currency code	Closing mid point	Change on day	Change on day%	Change on week	Change week %
Europe						
Austria	ATS	14.050180	-0.0004	+0.00	-0.0003	+0.00
Belgium	BEF	41.203045	+0.0014	+0.00	+0.0145	+0.04
Czech Republic	CZK	35.768697	-0.0921	-0.26	-0.0302	-0.08
Denmark	DKK	7.592955	-0.0010	-0.01	-0.0009	-0.01
Finland	FIM	6.071442	-0.0008	-0.01	-0.0004	-0.01
France	FRF	6.695641	-0.0001	+0.00	+0.0006	+0.01
Germany	DEM	1.998970	-0.0001	+0.00	-0.0000	+0.00
Greece	GRD	335.790162	+0.7238	+0.22	+1.3489	+0.40
Hungary	HUF	259.188910	+0.6190	+0.24	-0.0453	-0.02
Ireland	IEP	0.803078	-0.0001	-0.01	-0.0004	-0.05
Italy	ITL	1977.042825	+0.0792	+0.00	+0.2912	+0.01
Luxembourg	LUF	41.203045	+0.0014	+0.00	+0.0145	+0.04
Netherlands	NLG	2.251808	+0.0003	+0.01	+0.0002	+0.01
Norway	NOK	8.808857	-0.0004	+0.00	-0.0794	-0.89
Poland	PLN	4.064039	+0.0083	+0.20	-0.0304	-0.74
Portugal	PTE	204.960238	+0.1997	+0.10	+0.2420	+0.12
Romania	ROL	11804.115529	-81.3304	-0.68	+15.1656	+0.13
Russia	RUB	21.158320	+0.1289	+0.62	+0.2372	+1.13
Slovakia	SKK	42.830067	-0.1517	-0.35	-0.5457	-1.26
Spain	ESP	169.846804	-0.0208	-0.01	-0.1376	-0.08
Sweden	SEK	9.547033	-0.0714	-0.74	-0.0579	-0.60
Switzerland	CHF	1.650935	+0.0008	+0.04	+0.0087	+0.53
United Kingdom	GBP	0.705668	+0.0008	+0.11	-0.0070	-0.98
ECU	ECU	1.014896	+0.0004	+0.04	-0.0005	-0.05
Americas						
Brazil	BRL	1.406061	+0.0020	+0.14	-0.0131	-0.93
Canada	CAD	1.788435	-0.0254	-1.40	-0.0523	-2.84
Mexico	MXN	11.634146	-0.0006	-0.01	-0.1566	-1.33
United States	USD	1.172206	+0.0007	+0.06	-0.0165	-1.39
Pacific/Middle East/Africa						
Australia	AUD	1.838723	+0.0084	+0.46	-0.0028	-0.15
Hong Kong	HKD	9.076978	+0.0063	+0.07	-0.1282	-1.39
Japan	JPY	143.571804	+0.7309	+0.51	+2.3540	+1.67
Singapore	SGD	1.935312	+0.0142	+0.74	+0.0066	+0.34
South Africa	ZAR	6.875714	+0.0222	+0.33	-0.0349	-0.52

Source: FTSE International Ltd. This table gives a theoretic, synthetic value for the Euro against various other currencies, calculated by applying GDP weights to Euro "in" currencies. The Euro will not exist until January 1 and the table should not be used as a precise guide to its value. It is designed to show broad currency valuation trends. Currency weightings as follows: DEM 0.3354, FRF 0.2217, ITL 0.1823, NLG 0.0577, BEF 0.0385, ESP 0.0848, IEP 0.0116, PTE 0.0155, ATS 0.0328, FIM 0.0187

Synthetic Euro against the dollar
$ per Euro



Source: FTSE International

EUROZONE CURRENCY CONVERGENCE

Bilateral conversion rates against the D-Mark

Nov 26	Fixed rate	Market rate	Diff fxd v mkt %	Week ago %	Forward rate	Forward int rate	Diff int rate v DEM
Austria	7.03552	7.0357	+0.00	+0.00	7.0359	3.56	+0.03
Belgium	20.6255	20.6328	+0.04	+0.00	20.6318	3.48	-0.05
France	3.35386	3.3529	-0.05	-0.04	3.353	3.56	+0.03
Finland	3.04001	3.0403	+0.01	+0.02	3.0405	3.6	+0.07
Ireland	0.402676	0.4021	-0.14	-0.09	0.4022	3.79	+0.26
Italy	990.002	990.0211	+0.00	-0.02	990.1591	3.68	+0.15
Luxembourg	20.6255	20.6328	+0.04	+0.00	20.6379	3.48	-0.05
Netherlands	1.12674	1.1276	+0.08	+0.07	1.1273	3.25	-0.28
Portugal	102.505	102.6356	+0.13	-0.01	102.6466	3.64	+0.11
Spain	85.0722	85.0522	-0.02	+0.06	85.0738	3.8	+0.27
Germany	1		+0.00	+0.00		3.53	+0.00

Source: The WM Company. Fixed rates are bilateral rates agreed by EU May 2/3, forward rates are exchange rates to 31/12/98 interpolated from market quotes. forward interest rates are those implied by these forward exchange rates; Diff int rates v DEM are differences between implied forward interest rates and the DEM forward interest rate for 31/12/98; DEM forward interest rate for 31/12/98 is calculated by interpolation between published BBA market fixings

BONDS

INTEREST RATE SWAPS

Nov 26	D-Mark Bid	D-Mark Ask	Ecu Bid	Ecu Ask	£ Stlg Bid	£ Stlg Ask	US $ Bid	US $ Ask	Yen Bid	Yen Ask
1 year	3.42	3.45	3.47	3.51	0.00	0.00	5.09	5.12	0.40	0.43
2 year	3.44	3.47	3.45	3.49	5.97	6.01	5.16	5.19	0.47	0.50
3 year	3.54	3.57	3.55	3.59	5.88	5.92	5.22	5.25	0.59	0.62
4 year	3.69	3.72	3.70	3.74	5.80	5.84	5.26	5.29	0.72	0.75
5 year	3.85	3.88	3.85	3.89	5.70	5.74	5.31	5.34	0.85	0.88
6 year	4.00	4.03	4.01	4.05	5.62	5.66	5.36	5.39	0.98	1.01
7 year	4.15	4.18	4.15	4.19	5.57	5.61	5.43	5.46	1.11	1.14
8 year	4.28	4.31	4.28	4.32	5.53	5.57	5.48	5.51	1.24	1.27
9 year	4.39	4.42	4.39	4.43	5.51	5.55	5.53	5.56	1.36	1.39
10 year	4.47	4.50	4.47	4.51	5.50	5.54	5.58	5.61	1.49	1.52
12 year	4.61	4.64	4.61	4.65	5.47	5.52	5.68	5.71	1.74	1.78
15 year	4.80	4.83	4.80	4.84	5.44	5.50	5.77	5.80	1.99	2.03
20 year	4.99	5.02	4.99	5.03	5.41	5.48	5.86	5.89	2.20	2.25
25 year	5.11	5.14	5.11	5.15	5.38	5.45	5.85	5.88	2.22	2.27
30 year	5.17	5.20	5.17	5.21	5.37	5.45	5.84	5.87	2.33	2.38

Bid and ask rates as of close of London business. US $ is quoted annual money actual/360 basis against 3 months LIBOR, £ and Yen quoted on a semi-annual actual/365 basis against 6 months LIBOR. D-mark and Ecu quoted on annual bond 30/360 basis against 6 month LIBOR with the exception of the 1 year rate which is quoted against 3 months LIBOR. Source: Intercapital Brokers Ltd.

EUROZONE CORPORATE BONDS

Nov 26	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Ecu
Sovereign Fungible Issues								
Belgium (Kingdom of)	03/08	5.750	N/A	111.530	4.25	-0.02	-0.09	+0.07
France (Rep of)	04/08	5.250	AAA	108.900	4.09	-0.02	-0.11	-0.09
Italy (Rep of)	05/08	5.000	AA	105.580	4.27	-0.05	-0.16	+0.09
Portugal (Rep of)	06/08	5.375	AA-	107.620	4.32	-0.02	-0.13	+0.20
Euro Issues								
Abbey Natl Treas Srv	02/03	4.875	AA	103.950	3.84	-0.03	-0.12	+0.10
Gen Electric Cap Crp	10/04	5.500	AAA	108.030	3.92	-0.02	-0.06	+0.13
Oest Kontrollbank	04/08	5.250	AAA	106.960	4.33	-0.05	-0.15	+0.15
Cred Local de France	04/08	5.250	AA+	105.230	4.55	-0.01	-0.13	-0.37
Ecu Issues								
Bayer Hypo & Wch Bk	07/01	5.000	AA-	103.474	3.57	-0.02	-0.23	-0.07
Cred Foncier France	03/04	8.375	A	118.690	4.34	-0.02	-0.09	+0.55
Euro Inv Bank	04/04	5.250	AAA	107.390	3.70	-0.02	-0.18	-0.09
ABN Amro Hldg. NV	04/07	6.375	AA-	111.169	4.73	-0.03	-0.20	+0.67

Source: Interactive Data/FT Information. London closing. Fungible bonds issued in tranches by Emu "in" sovereigns and fungible into one big Euro issue 1/1/99. Euro issues are issued in the new currency. Ecu bonds are issued in Ecus but convert to Euros 1/1/99

GOVERNMENT BOND SPREADS vs ECU

Nov 26	2 yrs	5 yrs	7 yrs	10 yrs	20 yrs	30 yrs
"INs"						
Austria	-0.09	+0.04	+0.19	+0.02	-0.36	+0.18
Belgium	-0.12	+0.02	+0.09	+0.12	+0.04	+0.11
Finland	-0.15	+0.06	+0.18	+0.13	-0.46	-0.73
France	-0.18	-0.11	-0.10	-0.08	-0.07	-0.11
Germany	-0.19	-0.11	+0.01	-0.18	-0.13	-0.13
Ireland	-0.03	-0.04	+0.04	+0.10	+0.15	+0.53
Italy	+0.02	+0.06	+0.13	+0.16	+0.20	+0.18
Luxembourg	-0.12	+0.02	+0.09	+0.12	+0.04	+0.11
Netherlands	-0.14	-0.02	+0.04	-0.09	+0.06	-0.12
Portugal	-0.05	+0.14	+0.21	+0.17	+0.33	+0.21
Spain	-0.23	-0.03	+0.19	+0.25	+0.08	+0.15
"OUTs"						
Denmark	+0.42	+0.42	+0.38	+0.24	-0.07	+0.60
Greece	+6.47	+4.95	+3.95	+3.26	+2.54	+2.27
Sweden	+0.24	+0.30	+0.37	+0.28	+0.23	-0.04
UK	+1.76	+1.00	+0.92	+0.56	-0.10	-0.58

Source: Interactive Data/FT Information. Table takes common convention constant maturity treasury yield curves for each currency and compares to the constant maturity Ecu curve to calculate a spread.

EUROZONE CREDIT SPREADS vs ECU

Nov 26	S & P rating	Red date	Coupn	Currency code	Spread	Spread wk ago	Spread mth ago
KFW	AAA	01/09	5.000	DEM	+0.14	+0.13	+0.17
France Telcom	AA+	11/06	6.250	FRF	+0.21	+0.22	+0.23
Halifax	AA	07/07	5.625	DEM	+0.34	+0.44	+0.46
Ing Bank NV	AA-	01/08	5.500	NLG	+0.32	+0.28	+0.32
Bayer Hypo W Bk	AA-	02/02	6.750	ITL	+0.24	+0.24	+0.24
Cred Foncier	A	02/03	7.250	DEM	+0.56	+0.39	+0.60
Thomson-Brandt Inl	A-	03/04	6.375	FRF	+0.51	+0.49	+0.48
Generale des Eaux	N/A	03/04	6.250	FRF	+0.41	+0.39	+0.37
Bank of China	BBB	07/99	7.125	DEM	+1.66	+1.81	+2.46
Natl Bk of Hungary	BBB-	06/01	9.000	ATS	+0.83	+0.74	+1.47
Korea Dev Bank	BB+	11/02	5.625	FRF	+5.65	+5.90	+6.84
Argentina	BB	04/08	8.125	XEU	+5.34	+5.27	+5.68

Source: Interactive Data/FT Information. Table shows yield spreads to the Ecu curve for issues of a broadly representative credit in each rating band denominated in Euro "in" currencies.

INTERNATIONAL CAPITAL MARKETS

Eurex to look at improving system

By Edward Luce, Capital Markets Editor

Senior officials at Eurex yesterday said they would examine ways of improving the exchange's electronic system after a meeting with its London-based members.

The meeting, organised by the Futures and Options Association, was held after a group of banks complained to Eurex about glitches in its trading system.

Eurex dismissed most of the 35 complaints as either insignificant or already under control, but pledged action in several areas.

It said it would increase electronic capacity on Eurex's "after-trade processing" system, which takes place for half-an-hour after close of trade each day.

London-based members also requested the time for processing be extended – although this is opposed by members based in continental Europe, who operate one hour ahead of London.

Eurex also said it was dealing with concerns that the trading system had run into "bottlenecks" due to the unexpected surge in trading on five and 10-year German government bond futures in September and October. Some brokers have said the trading system, which is a decade old, is ill-equipped to deal with daily flows of more than half-a-million trades in one contract.

● The London International Financial Futures and Options Exchange is to launch its day-time electronic trading system on Monday. Liffe Connect will initially be open only for trading in equity options. Fixed-income contracts will gradually be transferred to Connect next year.

Gilts rally on rate cut hopes

GOVERNMENT BONDS

By Arkady Ostrovsky

UK gilts rallied yesterday, with the 10-year issue touching a seven-week high on fresh hopes of a further interest rate cut by the Bank of England.

The Confederation of British Industry cut its forecast for economic growth from 1.2 per cent to 0.7 per cent for 1999, and warned that growth would slow sharply, to a low of 0.5 per cent on an annualised basis in the third quarter of next year.

Comments by Willem Buiter, a member of the monetary policy committee, appeared to support the view that interest rates could be cut next month. The December 10-year gilt contract rose 0.63 to 116.73 on above average volume of more than 63,000 contracts.

Gilts' performance was particularly noticeable on a day when most other European markets were quiet and the US Treasury market was closed for the Thanksgiving holiday.

"Everyone is focused on the MPC meeting on December 9-10 and Mr Buiter's comments suggest there may be an interest rate cut," said James Mitchell, of Nomura.

However, Andrew Roberts, of Merrill Lynch, suggested that the CBI report had had no effect on the market; instead, it had been propped up by technical issues.

In Japan the 10-year bond came under more pressure, with the yield on the No 203 JGB rising above 1 per cent – the first time since early September that a benchmark long-bond yield has exceeded 1 per cent.

The market feared that a widening budget deficit could lead to an oversupply of bonds, pushing their yields higher.

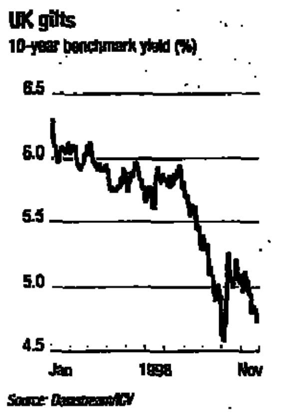
Jeremy Hawkins, of Bank of America, said investors' focus was on today's keynote speech by Keizo Obuchi, Japan's prime minister.

"The market believes that if Mr Obuchi does not cut consumption tax, the economy is not going to turn around. And bad news for the Japanese economy means bad news for bonds at the moment," he said.

In Germany, the December future on the 10-year bund broke through the 114 level, closing 0.15 points up at 114.03. Economists said the market was looking forward to meetings of the European Central Bank and the Bundesbank next week in search of signs of an early interest rate cut.

UK gilts

10-year benchmark yield (%)



Source: Datastream/ICV

IDB five-year deal raises £200m

INTERNATIONAL BONDS

By Khozem Merchant

The Inter-American Development Bank issued a £200m bond that traders said offered a relatively generous pick-up to other AAA-rated issues. The five-year bond was priced to yield 68 basis points over UK gilts, but was trading unchanged last night.

Similar issues by the World Bank and the European Investment Bank were trading at 51 basis points and 62 basis points respectively over the relevant UK gilt.

Geraud de Nadaillac, head of syndication at Royal Bank of Canada, the sole lead manager, said the extra spread was offered to ensure the bond was fully sold on its launch day.

He said investors wanted to increase their exposure to the sterling market because of the outlook for further reductions in UK interest rates. In addition, there was a heavy schedule of sterling bond redemptions between now and the end of the year.

Over the next two years the IDB is planning to raise an additional $9bn from the capital markets to lend to Latin American sovereigns hit by the global financial contagion.

Some of the proceeds will contribute to the International Monetary Fund's $41.5bn package for Brazil, the most vulnerable Latin American economy.

RoadChef issued a £210m asset-backed bond secured on the income stream from its UK motorway service stations.

The issue was divided into three tranches: a 10-year floating-rate note tranche of £35m, which was priced at a margin of 85 basis points over Libor; a 25-year fixed-rate tranche of £133m, priced to yield 230 basis points over the 2015 gilt; and a 28-year portion of £42m, priced to yield 300 basis points over the 2021 gilt.

RoadChef is the UK's third biggest motorway services operator. Its rival, Welcome Break, broke ground last year when it secured a bond against its motorway services.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
■ D-MARKS							
Kommunekredit‡	200	(a)	99.722R	Dec 2008	0.25R	-	ABN Amro/BayerLB
■ STERLING							
Inter-American Dev Bank	200	5.25	100.625	Dec 2003	1.875	-	RBC DS Global Markets
RoadChef Finance, A1(b1)‡	35	(b1.s)	100.00	Oct 2008	0.50	-	Barclays Capital
RoadChef Finance, A2(b2)	133	7.418(s)	103.00	Oct 2023	0.75	+230(8%-15)	Barclays Capital
RoadChef Finance, B(b3)	42	8.015(s)	103.00	Oct 2026	1.00	+300(8%-21)	Barclays Capital
■ PESETAS							
Bayersche Landesbank‡	10bn	(c)	99.95R	Dec 2008	0.075R	-	Caja Madrid
■ DRACHMA							
European Inv'ment Bank(d)	10bn	7.50	99.6875R	Dec 2001	0.1875R	-	RBC DS Global Markets

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ‡ Floating-rate note. R: fixed re-offer price; fees shown at re-offer level. a) 3-mth libor -6¼bp. b1) Average life: 6.95 yrs. 3-mth Libor +85bp. b2) Av life: 19.21 yrs. b3) Av life: 25.96 yrs. c) 0.8 x 10yr swap rate; min 3.5%. d) Dr25bn originally launched on 11/11/98 was increased to Dr35bn. s) Short 1st coupon.

Polish telecoms operator plans bond

By Khozem Merchant

Poland's state-owned telecoms operator, Telekomunikacja Polska (TP SA), is to raise between $500m and $1bn in a debut eurobond issue next week – the first corporate bond by a central European borrower since the Russian crisis in August.

The size and timing of the issue make it a key test of investor sentiment towards central Europe.

"This is a big step for the region's bond market," said one banker. "The reception to this will be a huge test of the mood."

The Polish government earlier this month launched an initial public offering of 15 per cent of TP SA, valuing the company at $6.2bn, or 43 per cent of the capitalisation of the Warsaw Stock Exchange.

This week, the company's board endorsed a plan to issue bonds of up to $1bn to support investment worth $4.5bn over the next two years.

The bond issue, which is likely to be divided between five-year and 10-year tranches, is being marketed this week and next in London and the US. It is likely to be priced relative to the benchmark Polish sovereign PDIs, Polish Brady bonds, which are trading at a yield spread of 245 basis points over US Treasuries.

J.P. Morgan and Salomon Smith Barney are joint lead managers of the Polish issue.

Fitch IBCA, the rating agency, last week upgraded Poland's foreign debt by one notch, from BBB to BBB+, two notches above the lowest investment grade. It said the country has emerged from the Russian crisis relatively unscathed.

RUSSIA DEUTSCHE BANK DEFENDS STANCE

Bank split on GKO debt plan widens

By Clay Harris, Banking Correspondent

The split in the ranks of western bank creditors of Russian domestic debt, or GKOs, widened yesterday when it emerged that they cannot even agree on the status of their negotiators.

Deutsche Bank, which heads a six-bank negotiating committee, has announced an agreement in principle with the Russian government that envisages creditors being able to repatriate only $550m of their $15bn investment in GKOs.

Some members of a wider group of 19 European, US, and Japanese banks have criticised the proposed deal and are due to raise their objections at a meeting today in London.

A Deutsche Bank spokesman in Frankfurt said only the six banks on the negotiating committee mattered, since the wider group had no official standing. "It doesn't help anybody if they meet and complain," he said.

One of the bankers in the outer circle disagreed, saying they had assented to the Russians' picking the banks' negotiating team on the condition that it was considered a "subset", representing the wider group. "That assumption "kept them quiet on the way to the abattoir," he said.

The Russian government insisted that the banks' negotiators be led by Wolfgang Wendt, a Deutsche Bank executive. It also named the six banks it wanted to take part.

The negotiating committee will not explicitly recommend the proposal at today's meeting. One member said none of the banks wanted to take that responsibility or incur potential liability. But the committee was satisfied it had fulfilled its mandate to achieve the best deal possible.

"The Russians have been playing it very well" by massaging down expectations, this banker said.

When the 19 banks rejected the original proposal in August, they hoped negotiations could close the gap between the 8-10 cents on the dollar terms being offered to International GKO creditors and the 30 to 40 per cent payout for domestic creditors.

However, "week-by-week, the Russians have whittled down the 10 per cent", leaving some banks to conclude that they should take what was on the table.

A second banker on the committee said its members were "not delighted with the deal". A third said: "What did they think the Russians were going to do? People who take your money usually don't come back and give it to you."

Several members of the negotiating committee apart from Deutsche said it was understood they represented the rest of the 19. The broader group works on consensus. If a minority cannot be satisfied, its only option is to refuse to take part.

● Lehman Brothers, one of the banks on the negotiating committee, does not have an office in Russia.

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WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Nov 26	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	01/01	8.750	108.1852	4.64	-0.03	+0.08	+0.31	-0.43
	08/08	9.750	127.2172	5.15	-0.02	+0.03	+0.19	-0.88
Austria	07/00	5.875	103.7000	3.48	-0.06	-0.10	-0.07	-1.02
	07/08	5.000	105.7100	4.23	-0.02	-0.03	-0.14	-1.33
Belgium	01/00	4.000	100.7100	3.35	-0.09	-0.09	-0.08	-0.90
	03/08	5.750	111.3300	4.25	-0.02	-0.03	-0.09	-1.35
Canada	12/00	5.000	100.1600	4.91	-0.04	+0.03	+0.39	+0.65
	06/08	6.000	106.1800	5.17	-0.02	-0.02	+0.18	-0.32
Denmark	11/00	9.000	109.2700	3.96	+0.04	-	-0.12	-0.78
	11/07	7.000	118.3300	4.47	-0.02	-0.04	-0.23	-1.48
Finland	01/99	11.000	100.9085	2.92	+0.01	-0.05	-0.12	-1.30
	04/08	6.000	113.2200	4.26	-0.03	-0.07	-0.21	-1.38
France	07/00	4.000	100.9800	3.35	-0.02	-0.11	-0.05	-0.98
	10/05	7.750	123.7600	3.77	-0.03	-0.05	-0.07	-1.44
	10/08	8.500	135.1700	4.10	-0.02	-0.03	-0.11	-1.38
	04/29	5.500	108.7800	4.93	-0.04	-0.12	-0.29	-1.11
Germany	06/00	4.000	100.9800	3.32	-0.02	-0.13	-0.08	-0.88
	10/05	6.500	115.4300	3.89	-0.02	-0.05	-0.11	-1.37
	07/08	4.750	105.6800	4.02	-0.02	-0.02	-0.09	-1.46
	01/28	5.625	110.8300	4.91	-0.08	-0.16	-0.32	-1.17
Ireland	10/01	6.500	108.0100	3.54	-0.03	-0.11	-0.16	-1.77
	08/05	6.000	113.5400	4.27	-0.03	-0.05	-0.16	-1.62
Italy	04/01	4.500	102.1900	3.51	-0.05	-0.13	-0.14	-1.62
	07/03	4.500	103.2300	3.73	-0.03	-0.11	-0.17	-1.71
	05/08	5.000	105.7800	4.24	-0.03	-0.08	-0.18	-1.84
	11/27	6.500	120.2500	5.14	-0.05	-0.13	-0.28	-1.28
Japan	12/00	0.900	113.4000	0.32	+0.03	+0.06	-0.03	-0.02
	12/03	4.100	116.6000	0.75	+0.07	+0.18	+0.01	-0.47
	06/08	1.900	106.5100	1.08	+0.08	+0.20	+0.14	-0.09
	03/13	2.700	114.7800	1.79	+0.09	+0.25	+0.25	-0.06
Netherlands	05/00	9.000	107.2900	3.38	-0.03	-0.11	-0.01	-0.91
	07/08	5.250	108.9600	4.10	-0.02	-0.03	-0.09	-1.35
New Zealand	02/01	8.000	108.1082	4.96	-0.01	-0.07	-0.41	-1.96
	07/09	7.000	110.9193	5.62	+0.03	+0.08	+0.06	-1.02
Norway	01/99	9.000	100.0870	7.86	-0.02	-0.01	+0.22	+3.46
	01/07	6.750	107.5500	5.21	-0.04	-0.22	-0.21	-0.34

10 YEAR BENCHMARK SPREADS

EMERGING MARKET BONDS

BOND FUTURES AND OPTIONS

US CORPORATE BONDS

US INTEREST RATES

INTERNATIONAL BONDS

Nov 26	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
■ EURO DM								
EIB	03/07	5.750	AAA	110.1200	4.26	-0.02	-0.04	+0.23
Spain	01/07	5.750	AA	109.6000	4.32	+0.02	-0.04	+0.29
Philip Morris	03/04	5.375	A	104.4000	4.42	-0.01	-0.11	+0.65
Finland FRN	09/02	3.531	AA	100.5352	2.94	-0.02	-0.15	-0.58
■ EURO FFR								
Austria	01/04	5.500	AAA	107.8800	3.82	-0.03	-0.10	+0.13
Abbey Nat	02/04	6.000	AA	109.5300	3.94	-0.02	-0.06	+0.25
Cred Foncier	02/04	9.125	A	122.6700	4.19	-0.02	-0.18	+0.50
SCIF FRN	12/01	3.617	AA-	99.8787	3.36	-0.03	-0.08	-0.09
■ EURO LIRA								
EIB	02/07	7.000	AAA	118.1250	4.33	-0.01	-0.05	+0.10
Abbey Nat	02/02	6.800	AA	109.0000	3.77	-0.04	-0.18	+0.07
Walt Disney	06/00	8.625	A	107.0600	3.84	-0.04	-0.13	+0.28
EIB FRN	03/01	4.743	AAA	100.0379	3.32	-0.03	-0.14	-0.28
■ EURO £								
EIB	12/07	7.625	AAA	116.4827	5.28	-0.06	-0.37	+0.59
Dresdner Bk	12/07	7.750	AA-	108.5386	6.47	-0.06	-0.45	+1.78
British Gas	03/00	7.625	A+	101.7297	6.19	-0.03	-0.29	+0.88
Abbey Nat FRN	02/02	7.138	AA	100.1524	4.95	-	-0.21	+0.08
■ EURO $								
EIB	04/07	7.250	AAA	112.3248	5.38	-0.01	+0.15	+0.59
ABN Amro	06/07	7.125	AA-	104.0784	6.48	-0.01	+0.30	+1.69
Quebec	01/07	7.000	A+	107.1018	5.89	-	+0.35	+1.10
Citicorp FRN	02/04	5.312	A+	94.4210	6.58	-	+0.28	+1.91
■ EURO C$								
Bayer L-Bk	08/04	9.500	AAA	118.9056	5.53	-0.04	+0.08	+0.18
Toronto	05/04	8.500	AA+	113.9778	5.47	-0.04	+0.08	+0.12
Bell Canada	07/99	10.625	A+	103.0472	5.35	-0.04	+0.36	+0.96
Deutsche B FRN	09/02	5.875	AA+	100.9920	5.58	-0.03	+0.26	+0.31
■ EURO YEN								
World Bank	03/02	5.250	AAA	115.7100	0.45	+0.05	+0.01	-0.18
Spain	03/02	5.750	AA	117.1581	0.51	+0.05	-	-0.10
Cred Foncier	08/02	4.750	A	113.4708	1.01	+0.05	+0.03	+0.40
Italy FRN	07/99	0.461	AA	100.0693	0.19	+0.01	+0.19	-0.02

London closing. Source: Interactive Data/FT Information

Standard & Poor's ratings. Yields: Local market standard/Annualised basis.

UK BONDS

FTSE Actuaries Govt. Securities

UK Indices

	Low coupon yield Nov 26	Nov 25	Yr. ago	Medium coupon yield Nov 26	Nov 25	Yr. ago	High coupon yield Nov 26	Nov 25	Yr. ago
5 yrs	4.88	4.93	6.76	4.91	4.98	6.85	4.88	4.94	6.89
15 yrs	4.58	4.65	6.56	4.72	4.81	6.51	4.78	4.89	6.59
20 yrs	4.54	4.62	6.56	4.68	4.79	6.47	4.78	4.89	6.57
Irred.†	4.78	4.89	6.57						

FT Fixed Interest Indices

UK GILTS PRICES

Other Fixed Interest

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CURRENCIES & MONEY

Sterling strength defies survey gloom

MARKETS REPORT
By Alan Beattie

Sterling yesterday kept a stiff upper lip despite another gloomy business survey and a drip-feed of generally dovish comments from the Bank of England's monetary policy committee (MPC).

The Confederation of British Industry (CBI) October industrial trends survey showed that manufacturers had failed to cheer up about the state of their order books despite the 25 basis point interest rate cut early in the month.

And comments by Bank of England monetary policy committee (MPC) members suggested that further rate cuts could be on the way.

But on a thin day in the markets because of the Thanksgiving holiday in the US, sterling had reason to be grateful to the dollar for holding it up against the D-Mark and the day's currency market turkey, the yen.

The pound finished in London trading at DM2.830, hardly changed from its close of DM2.833 the previous day.

The yen fell to Y122.5 against the dollar from Y121.9 on Wednesday.

■ The CBI's survey, having received increasing attention from the Bank of England in the past couple of months, could be a key indicator to the future direction for interest rates.

And yesterday's release suggested that the collapse in order books and expected output volumes in the October survey had not been a temporary phenomenon.

Given reports of continued strong stockbuilding despite precipitate falls in prices, the survey suggested that profit margins were narrowing rapidly and cutbacks in output would follow shortly.

Comments of MPC members being scrutinised by a parliamentary committee did nothing to relieve the gloom around the UK economy. Willem Buiter, the committee's newest dove, said that nothing had happened since the previous MPC meeting to change his mind about the state of the economy.

Some took that to mean he would continue to press for further cuts in rates at the next MPC meeting on December 9-10. Professor Buiter wanted a 75 basis point cut at the November meeting as against the 50 basis point reduction agreed by the rest of the committee.

Short sterling contracts rose by 6-8 basis points across the strip yesterday as some market participants revised down their view of likely future rates.

But after dipping briefly on the release of the CBI survey, sterling recovered and clung on to the dollar as the US currency powered up against the D-Mark.

"The news on sterling was bad but it was outdone by the weakness of the D-Mark," said Gerard Lyons, chief economist at DKB International in London.

"It has become clear recently that the economic news out of Germany has generally been poor. And Klaus Gretschmann, [Gerhard] Schröder's aide, said today that he expected euro interest rate convergence around three per cent. So there is a good chance of a cut in core European rates before the end of the year," he added.

■ The yen also managed to stay within its recent trading range against the dollar yesterday despite a sell-off in Japanese government bonds over fears that higher debt issuance could not be absorbed by the market.

"With the market as thin as it is, technical factors dominate and the fundamentals just don't work," said David Bloom, currency economist at HSBC.

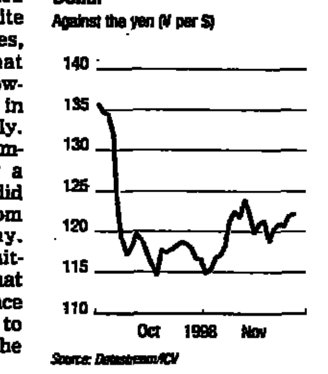
Mr Bloom said that a short-term rally in the yen was possible around the year-end because of the recent fall in the "Japan premium" - the extra that Japanese banks have to pay to borrow in the US and UK interbank markets.

"The peak in the premium at the turn of last year presaged a big sell-off in dollar-yen," said Mr Bloom.

"If the recent fall in the premium shows that Japanese banks have already got all their end-of-year dollar funding, the same thing could happen again this year," he added.

"The recent seasonal demand for dollars is evident from the gap between the Fed funds rate and the interbank rate," Mr Bloom said.

Dollar
Against the yen (Y per $)



Source: Datastream/ICV

■ **POUND IN NEW YORK**

Nov 26	— Close —	— Prev. close —
£ spot	1.6610	1.6595
1 mth	1.6585	1.6580
3 mth	1.6577	1.6522
1 yr	1.6425	1.6399

■ **OTHER CURRENCIES**

Nov 26	£	$
Czech Rp	50.8363 - 50.7353	30.4840 - 30.5340
Hungary	367.558 - 367.466	221.020 - 221.170
Iran	4884.80 - 4981.80	3000.00 - 3000.00
Kuwait	0.5005 - 0.5040	0.3022 - 0.3023
Peru	5.1761 - 5.1868	3.1170 - 3.1210
Poland	5.7595 - 5.7624	3.4680 - 3.4680
Russia	29.8878 - 30.1580	17.9500 - 18.1800
UAE	6.0891 - 6.1032	3.6728 - 3.6731

POUND SPOT FORWARD AGAINST THE POUND

Nov 26		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	19.9101	-0.0228	981 - 221	19.9221	19.8351	19.8628	3.5	19.7527	3.2	19.3739	2.7	103.4
Belgium	(BFr)	58.3677	-0.0631	380 - 385	58.4385	58.1640	58.2167	3.5	57.9234	3.2	56.799	2.7	103.3
Denmark	(DKr)	10.7598	-0.0135	532 - 683	10.7683	10.7197	10.7364	2.4	10.6998	2.4	10.5320	2.1	107.2
Finland	(FM)	8.6037	-0.0105	978 - 096	8.6096	8.5730	8.5783	3.4	8.5354	3.2	8.372	2.7	82.7
France	(FFr)	9.4882	-0.0107	845 - 919	9.4945	9.4518	9.4698	3.5	9.4122	3.2	9.2237	2.7	105.5
Germany	(DM)	2.8298	-0.0033	292 - 314	2.8322	2.8198	2.8216	3.5	2.8076	3.1	2.7529	2.7	105.6
Greece	(Dr)	475.839	-0.486	529 - 148	476.148	472.983	477.758	-4.8	481.138	-4.5	493.527	-3.7	62.0
Ireland	(I£)	1.1380	-0.0014	367 - 403	1.1403	1.1360	1.135	3.2	1.1285	3.0	1.1081	2.5	95.0
Italy	(L)	2801.81	-3.81	010 - 312	2803.12	2789.62	2793.98	3.3	2776.84	3.1	2725.77	2.7	76.2
Luxembourg	(LFr)	58.3677	-0.0631	380 - 385	58.4385	58.1640	58.2167	3.5	57.9234	3.2	56.799	2.7	103.3
Netherlands	(Fl)	3.1909	-0.0032	893 - 924	3.1924	3.1783	3.1809	3.8	3.1643	3.3	3.1026	2.8	103.8
Norway	(NKr)	12.4720	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	92.8
Portugal	(Es)	290.443	-0.341	372 - 614	290.614	289.287	289.646	3.3	288.144	3.2	282.532	2.7	92.6
Spain	(Pta)	240.685	-0.298	571 - 799	240.820	239.800	240.001	3.1	238.809	3.0	234.327	2.6	77.4
Sweden	(SKr)	13.5299	-0.1184	165 - 412	13.7164	13.4975	13.4924	3.2	13.4289	3.0	13.2123	2.3	78.8
Switzerland	(SFr)	2.3395	-0.0016	388 - 410	2.3423	2.3302	2.3286	3.6	2.3086	5.1	2.2284	4.3	107.2
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	101.5
Ecu	-	1.4360	-0.0011	371 - 392	1.4394	1.4337	1.4345	3.0	1.4274	3.0	1.4001	2.7	-
SDR†	-	1.199600	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6608	-0.0007	603 - 613	1.6611	1.6537	-	-	-	-	-	-	-
Brazil	(R$)	1.9974	-0.0056	917 - 931	1.9927	1.9832	-	-	-	-	-	-	-
Canada	(C$)	2.5343	-0.0158	327 - 359	2.5570	2.5161	2.5303	1.9	2.5233	1.7	2.500	1.2	78.8
Mexico	(New Peso)	16.4563	-0.0192	732 - 997	16.4997	16.4527	16.8878	-29.2	17.5086	-27.0	20.482	-24.3	-
USA	($)	1.6611	-0.0009	606 - 616	1.6616	1.6543	1.6585	1.9	1.6547	1.5	1.6425	1.1	107.1
Pacific/Middle East/Africa													
Australia	(A$)	2.6057	+0.0091	035 - 085	2.6085	2.5854	2.6015	1.9	2.5936	1.9	2.571	1.3	81.5
Hong Kong	(HK$)	12.8627	-0.0054	580 - 674	12.8674	12.8104	12.8436	1.8	12.833	0.9	12.8061	-1.0	-
India	(Rs)	70.5760	-0.0677	472 - 997	70.6097	70.3080	70.7291	-2.6	71.4462	-4.9	75.6631	-7.2	-
Indonesia	(Rupiah)	12441.66	-64.53	466 - 846	12528.46	12076.40	12603.33	-34.9	13584.77	-36.8	16242.91	-30.6	-
Israel	(Shk)	6.9129	-0.0178	951 - 304	6.9304	6.8160	-	-	-	-	-	-	-
Japan	(Y)	203.452	+0.81	302 - 603	203.596	201.400	202.317	6.7	200.122	6.5	191.597	5.9	124.6
Malaysia	(M$)	6.3121	-0.0035	171 - 225	6.3128	6.2868	-	-	-	-	-	-	-
New Zealand	(NZ$)	3.1291	+0.0025	251 - 331	3.1321	3.1157	3.1213	3.0	3.1093	2.5	3.0578	1.3	91.5
Philippines	(Peso)	65.3315	-0.1414	952 - 677	65.4837	65.2798	65.8082	-8.6	66.6684	-8.2	70.6775	-8.2	-
Saudi Arabia	(SR)	6.2301	-0.0033	279 - 322	6.2322	6.2083	6.2256	0.3	6.2285	0.0	6.2168	0.2	-
Singapore	(S$)	2.7425	+0.017	400 - 450	2.7450	2.6924	2.7307	5.2	2.7125	4.4	2.6657	2.8	-
South Africa	(R)	9.4600	+0.0209	405 - 794	9.4794	9.4080	9.5465	-11.0	9.7144	-10.8	10.4699	-10.7	-
South Korea	(Won)	2062.26	-12.69	914 - 537	2070.68	2056.30	-	-	-	-	-	-	-
Taiwan	(T$)	53.9575	-0.0343	396 - 754	53.9754	53.7383	54.0147	-1.3	53.9993	-0.3	54.1763	-0.4	-
Thailand	(Bt)	59.8329	-0.2051	318 - 339	61.3460	59.6380	59.83	0.1	59.9834	-1.0	61.2968	-2.4	-

† Rates for Nov 25. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. The exchange rates printed in this table are also available on the internet at http://www.FT.com.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Nov 26		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan index
Europe													
Austria	(Sch)	11.9881	-0.0076	825 - 937	12.0110	11.8790	11.8706	1.6	11.9391	1.6	11.7501	1.6	103.3
Belgium	(BFr)	35.1300	-0.02	300 - 700	35.2100	35.1300	35.102	1.6	35.0045	1.7	34.5775	1.6	103.3
Denmark	(DKr)	6.4775	-0.0048	750 - 795	6.4905	6.4721	6.4737	0.7	6.4625	0.9	6.411	1.0	106.5
Finland	(FM)	5.1795	-0.0034	775 - 815	5.1865	5.1770	5.173	1.5	5.1669	1.6	5.0875	1.6	82.2
France	(FFr)	5.7120	-0.0036	115 - 125	5.7232	5.7085	5.7045	1.6	5.6865	1.6	5.6188	1.7	106.5
Germany	(DM)	1.7035	-0.0011	031 - 040	1.7073	1.7023	1.7014	1.5	1.6958	1.6	1.6733	1.7	104.6
Greece	(Dr)	286.460	+0.445	380 - 580	286.870	285.860	287.985	-6.4	290.81	-5.8	300.41	-4.9	61.9
Ireland	(I£)	1.4597	+0.0011	572 - 622	1.4622	1.4567	1.4613	-1.4	1.4654	-1.6	1.4822	-1.6	-
Italy	(L)	1686.66	-0.56	[illegible]	[illegible]	[illegible]	[illegible]	1.6	[illegible]	1.6	[illegible]	1.6	76.0
Luxembourg	(LFr)	35.1300	-0.02	300 - 700	35.2100	35.1300	35.102	1.6	35.0045	1.7	34.5775	1.6	102.3
Netherlands	(Fl)	1.9210	-0.0006	205 - 213	1.9244	1.9195	1.918	1.9	1.9124	1.8	1.8883	1.7	102.6
Norway	(NKr)	7.5129	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-1.4	93.0
Portugal	(Es)	174.850	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1.6	93.1
Spain	(Pta)	144.905	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1.6	77.2
Sweden	(SKr)	8.1445	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1.5	78.7
Switzerland	(SFr)	1.4084	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3.2	107.1
UK	(£)	1.6611	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1.0	101.9
Ecu	-	1.1550	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-1.6	-
SDR†	-	0.72130	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9998	-0.0001	998 - 998	0.9998	0.9998	-	-	-	-	-	-	-
Brazil	(R$)	1.1995	-0.001	994 - 995	1.1994	1.1987	-	-	-	-	-	-	-
Canada	(C$)	1.5267	-0.0026	262 - 272	1.5406	1.5195	1.5258	0.0	1.525	0.2	1.5242	0.1	75.4
Mexico	(New Peso)	9.9250	-0.0050	200 - 300	9.9300	9.9200	10.172	-29.9	10.62	-28.0	12.5	-25.9	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	108.6
Pacific/Middle East/Africa													
Australia	(A$)	1.5686	-0.0052	674 - 699	1.5713	1.5632	1.5678	0.6	1.5652	0.9	1.5545	0.9	82.0
Hong Kong	(HK$)	7.7435	+0.0007	430 - 440	7.7440	7.7420	7.7442	-0.1	7.7475	-2.0	7.8085	-2.0	-
India	(Rs)	42.4875	+0.0025	800 - 950	42.5120	42.4400	42.6825	-4.8	43.2	-6.7	46.0025	-8.5	-
Indonesia	(Rupiah)	7490.00	-35	000 - 000	7525.00	7300.00	7725	-37.7	8120	-33.6	9740	-30.0	-
Israel	(Shk)	4.1616	-0.0085	522 - 709	4.1650	4.1630	-	-	-	-	-	-	-
Japan	(Y)	122.480	-0.55	430 - 530	122.650	121.300	121.99	4.8	120.95	5.0	116.635	4.8	126.7
Malaysia	(M$)	3.8000	-	000 - 000	3.8001	3.7999	-	-	-	-	-	-	-
New Zealand	(NZ$)	1.8838	+0.0025	825 - 850	1.8864	1.8779	1.8858	-1.2	1.8923	-1.8	1.9111	-1.4	-
Philippines	(Peso)	39.3350	-0.1000	100 - 600	39.4100	39.3000	39.657	-9.8	40.281	-9.6	43.058	-9.5	-
Saudi Arabia	(SR)	3.7506	-0.0001	504 - 507	3.7507	3.7504	3.7533	-0.9	3.7586	-0.8	3.7876	-1.0	-
Singapore	(S$)	1.6510	+0.0111	500 - 520	1.6510	1.6227	1.6465	3.2	1.639	2.9	1.6[illegible]	1.8	-
South Africa	(R)	5.6950	+0.0155	850 - 050	5.7050	5.6778	5.759	-13.5	5.8695	-12.0	6.3675	-11.8	-
South Korea	(Won)	1241.50	-7	000 - 300	1248.00	1240.00	-	-	-	-	-	-	-
Taiwan	(T$)	32.4830	-0.004	820 - 840	32.4840	32.4820	32.538	-2.0	32.608	-1.5	32.958	-1.5	-
Thailand	(Bt)	36.0200	-0.105	700 - 700	36.9600	35.9700	36.045	-0.8	36.12	-1.1	37.195	-3.3	-

† SDR rate per $ for Nov 25. ‡ Official rate set by Malaysian government. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Nov 25. Base average 1990=100. Bid, offer, mid spot rates and forward rates in both this and the Dollar table are derived from THE WM/REUTERS CLOSING SPOT and FORWARD RATE services. Some values are rounded by the FT.
The exchange rates printed in this table are also available on the internet at http://www.FT.com

WORLD INTEREST RATES

MONEY RATES

Nov 26	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	3⅝	3½	3⅝	3⅝	3⅝	6.00	2.75	-
France	3⅝	3¼	3⅝	3⅛	3⅛	4.60	-	3.30
Germany	3¼	3⅝	3¾	3⅜	3¼	4.50	2.50	3.30
Ireland	3⅝	3⅝	3⅝	3¾	3⅝	-	-	3.69
Italy	4	3⅝	3¾	3⅛	3⅝	5.50	4.00	4.08
Netherlands	3½	3¾	3⅝	3¾	3⅝	-	2.75	3.30
Switzerland	1½	1⅝	1¾	1⅝	1⅝	-	1.00	-
US	5⅛	5	5¼	5⅛	5⅛	-	4.50	-
Japan	⅜	⅝	¾	⅝	⅝	-	0.50	-
■ $ LIBOR BBA London								
Interbank Fixing	-	5⅛	5¼	5⅛	5⅛	-	-	-
US Dollar CDs	-	4.74	4.80	4.79	4.78	-	-	-
ECU Linked Ds	-	3¾	3⅝	3⅝	3½	-	-	-
SDR Linked Ds	-	3⅛	3¾	3⅛	3⅛	-	-	-

London interbank fixing rate (LIBOR) is the BBA London rate, fixed at 11am. Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Nov 26	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	3⅞ - 3⅛	3⅝ - 3⅝	3⅛ - 3⅛	3¾ - 3⅝	3⅝ - 3⅛	3⅝ - 3⅝
Danish Krone	4⅝ - 4⅜	4⅛ - 4⅛	4⅝ - 4⅛	4⅛ - 4⅛	4⅛ - 3⅝	4⅛ - 4
German Mark	3⅝ - 3⅛	3⅛ - 3⅝	3½ - 3⅛	3⅝ - 3⅝	3⅝ - 3⅝	3½ - 3⅝
Dutch Guilder	3¾ - 3⅛	3⅛ - 3⅛	3⅛ - 3⅛	3⅝ - 3⅝	3⅛ - 3⅛	3⅝ - 3¾
French Franc	3⅛ - 3⅝	3⅝ - 3¾	3½ - 3¾	3⅝ - 3⅝	3⅝ - 3¾	3½ - 3¾
Portuguese Esc.	3⅝ - 3⅝	3⅝ - 3⅝	3⅝ - 3⅝	3⅝ - 3⅝	3⅝ - 3½	3¾ - 3⅝
Spanish Peseta	3⅛ - 3⅛	3⅝ - 3½	3¾ - 3¾	3⅝ - 3⅛	3⅝ - 3⅛	3½ - 3⅛
Sterling	6⅝ - 6⅝	6¾ - 6¾	6⅝ - 6⅝	6⅝ - 6⅝	6⅝ - 6⅝	6⅝ - 6⅝
Swiss Franc	1½ - 1¼	1⅛ - 1⅝	1½ - 1⅝	1⅝ - 1⅛	1⅝ - 1¾	1⅝ - 1¾
Canadian Dollar	5¼ - 5⅛	5⅛ - 4⅝	5⅛ - 4⅝	5⅛ - 4⅝	5⅛ - 4⅝	5⅛ - 4⅝
US Dollar	5⅛ - 4⅝	5⅛ - 5⅛	5⅛ - 4⅝	5⅛ - 5⅛	5⅛ - 5⅛	5⅛ - 5⅛
Italian Lira	3⅝ - 3¾	3⅝ - 3¾	3⅝ - 3¾	3⅝ - 3⅝	3⅝ - 3½	3⅝ - 3⅛
Japanese Yen	¼ - ⅛	⅛ - ⅛	⅛ - ⅛	⅝ - ⅛	½ - ⅛	½ - ⅛
Asian $Sing	1 - ¾	1¾ - ¾	1¾ - 1½	2¼ - 2	2¼ - 2¼	3 - 2¾

Short term rates are call for the US Dollar and Yen, others: two days' notice

■ THREE MONTH PIBOR FUTURES (MATIF) Paris Interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.705	96.725	+0.020	96.750	96.700	1,159	42,495
Mar	96.770	96.785	+0.015	96.810	96.770	1,871	24,664

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.430	96.440	+0.010	96.450	96.425	46272	502557
Mar	96.715	96.735	+0.030	96.745	96.700	52465	493749
Jun	96.770	96.795	+0.030	96.820	96.765	40584	386117
Sep	96.780	96.800	+0.030	96.820	96.765	24079	293158

■ ONE MONTH EUROMARK FUTURES (LIFFE)* DM3m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	-	96.335	+0.010	-	-	0	4000

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.380	96.410	+0.020	96.410	96.380	6061	158575
Mar	96.720	96.730	+0.030	96.730	96.700	5353	254075
Jun	96.770	96.790	+0.030	96.810	96.770	192	74727
Sep	96.760	96.780	+0.020	96.800	96.760	94	45831

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	98.190	98.220	-0.040	98.270	98.190	13808	52829
Mar	98.250	98.270	-0.040	98.310	98.240	7159	53246
Jun	98.230	98.230	-0.040	98.280	98.210	643	27788
Sep	98.150	98.140	-0.040	98.190	98.140	461	17018

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	-	99.36	-	-	-	0	n/a
Mar	-	99.47	-	-	-	0	n/a
Jun	-	99.52	-	-	-	0	n/a

* LIFFE futures also traded on APT

■ THREE MONTH EURO FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.380	96.385	-	96.390	96.375	126	9789
Mar	96.710	96.735	+0.030	96.720	96.710	75	5988
Jun	96.770	96.795	+0.030	96.770	96.770	75	2282
Sep	96.770	96.800	+0.030	96.770	96.770	75	1263

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
96375	0.060			0.035		
96500	0.025	0.270	0.380	0.115	0.040	0.090
96625	0.010			0.225		

Est. vol. total, Calls 0 Puts 100. Previous day's open int., Calls 72357 Puts 79733

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Nov 26		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.43	16.25	4.847	1.949	4798	5.465	21.37	497.4	412.2	23.17	4.007	1.713	4.341	2.845	348.4	2.463
Denmark	(DKr)	54.26	10	8.818	2.630	1.058	2604	2.966	11.60	269.9	223.7	12.57	2.174	0.929	2.355	1.544	189.1	1.337
France	(FFr)	61.54	11.34	10	2.983	1.199	2953	3.363	13.15	306.1	253.7	14.26	2.466	1.054	2.671	1.751	214.4	1.516
Germany	(DM)	20.63	3.802	3.353	1	0.402	990.0	1.128	4.410	102.6	85.05	4.781	0.827	0.353	0.896	0.587	71.89	0.508
Ireland	(I£)	51.31	9.455	8.338	2.487	1	2462	2.804	10.97	255.2	211.5	11.89	2.056	0.879	2.227	1.460	178.8	1.264
Italy	(L)	2.084	0.384	0.339	0.101	0.041	100	0.114	0.445	10.37	8.591	0.483	0.084	0.036	0.090	0.059	7.262	0.051
Netherlands	(Fl)	18.30	3.372	2.973	0.887	0.357	878.0	1	3.911	91.02	75.43	4.240	0.733	0.313	0.794	0.521	63.76	0.451
Norway	(NKr)	46.79	8.622	7.603	2.268	0.912	2245	2.557	10	232.7	192.9	10.84	1.875	0.801	2.031	1.331	163.0	1.152
Portugal	(Es)	20.10	3.705	3.267	0.974	0.392	964.6	1.099	4.297	100	82.87	4.658	0.806	0.344	0.873	0.572	70.05	0.495
Spain	(Pta)	24.26	4.470	3.942	1.176	0.473	1164	1.326	5.185	120.7	100	5.621	0.972	0.415	1.052	0.690	84.53	0.598
Sweden	(SKr)	43.16	7.953	7.013	2.092	0.841	2071	2.359	9.225	214.7	177.9	10	1.729	0.739	1.873	1.228	150.4	1.063
Switzerland	(SFr)	24.96	4.599	4.056	1.210	0.486	1198	1.364	5.334	124.1	102.9	5.783	1	0.427	1.083	0.710	86.96	0.615
UK	(£)	58.39	10.76	9.488	2.830	1.138	2802	3.191	12.48	290.4	240.7	13.53	2.340	1	2.534	1.661	203.5	1.438
Canada	(C$)	23.04	4.246	3.744	1.117	0.449	1105	1.259	4.924	114.6	94.97	5.338	0.923	0.395	1	0.655	80.28	0.567
USA	($)	35.15	6.479	5.712	1.704	0.685	1687	1.921	7.513	174.9	144.9	8.145	1.408	0.602	1.526	1	122.5	0.866
Japan	(Y)	28.70	5.299	4.664	1.391	0.559	1377	1.568	6.134	142.8	118.3	6.650	1.150	0.492	1.246	0.816	100	0.707
Ecu	-	40.60	7.482	6.597	1.968	0.791	1948	2.219	8.677	202.0	167.4	9.407	1.627	0.695	1.762	1.155	141.5	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	0.5872	0.5877	+0.0009	0.5895	0.5863	13,893	91,746
Mar	0.5911	0.5909	+0.0008	0.5912	0.5890	216	2,091
Jun	-	0.5922	+0.0009	0.5928	-	4	1,173

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	0.7124	0.7119	-	0.7172	0.7102	12,658	47,864
Mar	0.7182	0.7151	-0.0001	0.7208	0.7168	225	759
Jun	-	0.7219	-0.0002	0.7260	0.7230	6	19

■ JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	0.8273	0.8232	-0.0036	0.8335	0.8215	11,517	75,256
Mar	0.8370	0.8339	-0.0039	0.8410	0.8325	226	5,272
Jun	-	0.8436	-0.0040	-	-	22	3,344

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	1.6580	1.6590	+0.0022	1.6632	1.6558	4,497	52,050
Mar	1.6570	1.6532	+0.0022	1.6580	1.6510	227	2,108
Jun	-	1.6482	-0.0022	1.6520	-	36	1,220

UK INTEREST RATES

LONDON MONEY RATES

Nov 26	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	6⅝ - 6⅝	6⅝ - 6⅝	6⅝ - 6⅝	6⅝ - 6⅝	6⅝ - 6⅝	6⅝ - 6⅝
Sterling CDs	-	-	6⅝ - 6⅝	6⅝ - 6⅝	6⅝ - 6⅝	6⅝ - 6⅝
Treasury Bills	-	-	6⅝ - 6⅝	6⅝ - 6⅝	-	-
Bank Bills	-	-	6⅝ - 6⅝	6⅝ - 6⅝	6⅝ - 6⅝	-
Local authority deps.	[illegible]	6⅝ - 6⅝	6⅝ - 6⅝	6⅝ - 6⅝	6⅝ - 6⅝	6⅝ - 6⅝
Discount Market deps	[illegible]	6⅝ - 6⅝	-	-	-	-

UK clearing bank base lending rate 6¾ per cent from Nov 5, 1998

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	4	6.5	6.5	6.25	6.25

Certs of Tax dep. under £100,000 is [illegible]pc. Deposits withdrawn for cash 2pc. Av. tender rate of discount [illegible]. ECGD fixed rate Stlg. Export Finance. Make up day Oct 30 [illegible]. Reference rate for period Oct 1 [illegible]. Finance House Base Rate 7½pc for Nov 1998

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	93.250	93.260	+0.020	93.270	93.240	17617	190144
Mar	93.840	93.910	+0.070	93.920	93.840	24791	156837
Jun	94.170	94.240	+0.070	94.240	94.170	16271	149664
Sep	94.300	94.360	+0.060	94.380	94.310	20377	150774
Dec	94.160	94.210	+0.070	94.220	94.160	6214	138398

Traded on APT. All Open interest figs. are for previous day

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
93250	[illegible]	[illegible]	1.025	0.060	0.030	0.045
93375	[illegible]			0.145		
93500	[illegible]	[illegible]	0.865	0.250	0.065	0.075
93625	[illegible]			0.370		
93750	[illegible]	0.230	0.635	0.490	0.130	0.125
93875	[illegible]			0.615		

Est. vol. total, Calls [illegible] Puts [illegible]. Previous day's open int., Calls [illegible] Puts [illegible]

EMS EUROPEAN CURRENCY UNIT RATES

Nov 26	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Greece	357.000	329.359	+0.319	-7.74	7.54	52
Denmark	7.54257	7.45524	-0.0015	-1.16	0.38	8
Ireland	0.796244	0.788761	-0.000154	-0.94	0.15	6
France	6.63186	6.57395	-0.00131	-0.87	0.09	7
Spain	168.220	166.763	+0.005	-0.87	0.08	6
Germany	1.97738	1.96051	-0.00039	-0.85	0.07	8
Austria	13.9119	13.7935	-0.002	-0.85	0.06	6
Italy	1957.61	1941.08	-0.33	-0.84	0.06	6
Belgium	40.7844	40.4421	-0.0073	-0.84	0.05	6
Finland	6.01125	5.96092	-0.00127	-0.84	0.05	6
Portugal	202.692	201.091	-0.005	-0.79	0.00	5
Netherlands	2.22799	2.21046	-0.0004	-0.79	0.00	6
NON ERM MEMBERS						
UK	0.653644	0.693923	+0.000655	6.16	-6.55	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu: a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. 17/9/92 Sterling suspended from ERM. 16/3/98 Drachma joined ERM & Punt revalued by 3%. Other central rates adjusted. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Dec	CALLS Jan	CALLS Feb	PUTS Dec	PUTS Jan	PUTS Feb
1.650	1.49	2.29	2.68	0.57	1.63	2.25
1.660	0.96	1.82	2.25	0.93	2.06	2.65
1.670	0.59	1.40	1.85	1.60	2.60	3.23

Previous day's vol. Calls - Puts 63. Prev. day's open int., Calls 563 Puts 4,587

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

Strike Price	CALLS Dec	CALLS Jan	CALLS Feb	PUTS Dec	PUTS Jan	PUTS Feb
0.580	0.91	1.27	1.51	0.14	0.41	0.58
0.585	0.57	0.96	1.21	0.30	0.59	0.78
0.590	0.32	0.70	0.95	0.54	0.83	1.02

Previous day's vol. Calls 120 Puts 522. Prev. day's open int., Calls 2,322 Puts 10,297

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	94.78	94.78	-	94.79	94.78	44,648	439,847
Mar	95.10	95.16	+0.01	95.12	95.09	87,904	503,755
Jun	95.08	95.08	-	95.10	95.07	75,714	402,979

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	95.56	95.57	-0.03	95.58	95.55	195	1,797
Mar	95.81	95.80	-0.01	95.83	95.79	77	426
Jun	-	95.92	-	-	95.86	1	33

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS Dec	CALLS Jan	CALLS Feb	CALLS Mar	PUTS Dec	PUTS Jan	PUTS Feb	PUTS Mar
96375	0.090				0.025			
96500	0.025	0.255	0.265	0.280	0.095	0.020	0.030	0.045
96625	0.010				0.165			
96750	0.005	0.080	0.095	0.125	0.315	0.095	0.110	0.140

Est. vol. total, Calls 31401 Puts 8231. Previous day's open int., Calls 913680 Puts 474337

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
98250	0.060	0.210	0.270	0.090	0.190	0.290
98375	0.030			0.135		

Est. vol. total, Calls 0 Puts 200. Previous day's open int., Calls 12314 Puts 5217

BASE LENDING RATES

	%		%		%
Adam & Company	6.75	Exeter Trust Limited	7.75	●Singer & Friedlander	6.75
Alliance & Leicester	6.75	Financial & Gen Bank	8.00	Smith & Williamson	6.75
●Henry Ansbacher	6.75	●Robert Fleming & Co	6.75	Sun Bank	6.75
Banco Bilbao Vizcaya	6.75	●Habib Bank AG Zurich	6.75	TSB	6.75
Bank of Cyprus	6.75	Heritable & Gen Inv Bk	6.75	United Bank of Kuwait	6.75
Bank of Ireland	6.75	C. Hoare & Co	6.75	Unity Trust Bank Plc	6.75
Bank of India	6.75	●SG Hambros Bank & Trust	6.75	Whiteaway Laidlaw	6.75
Bank of Scotland	6.75	Hongkong & Shanghai	6.75	Yorkshire Bank	6.75
Barclays Bank	6.75	Investec Bank (UK) Ltd	6.75		
British Bk of Mid East	6.75	●Julian Hodge Bank	6.75	● Members of London Investment Banking Association	
●Brown Shipley & Co Ltd	6.75	●Leopold Joseph & Sons	6.75		
Citibank NA	6.75	Lloyds Bank	6.75		
Clydesdale Bank	6.75	Midland Bank	6.75		
The Co-operative Bank	6.75	NatWest	6.75		
Coutts & Co	6.75	●Rea Brothers	6.75		
Cyprus Popular Bank	6.75	Royal Bk of Scotland	6.75		
Duncan Lawrie	6.75	●Scottish Widows Bank	6.75		

EUROPEAN UNION ITALIAN FARM MINISTER TO PRESS FOR LIBERALISATION

Italy to use milk as CAP reform platform

By Michael Smith in Brussels

Italy plans to use its membership of an alliance that is pushing for reform of the European Union milk sector as a platform to campaign for further changes to the *Common Agricultural* Policy.

Paolo de Castro, Italy's newly-installed farm minister, said his country considered itself to be in the vanguard of EU members pressing hard for CAP liberalisation.

"We are convinced that it is time for European Union countries to change agriculture policy so that we move towards becoming a free market," Mr de Castro said. "We [Italy] have already started on milk and will now move to other dossiers," he added.

Mr de Castro's comments mark a change of tone for a country traditionally regarded as protectionist on farm issues.

They will be welcomed by the European Commission, the EU's executive, which is trying to convince EU countries to back its proposals to reform the CAP in the new millennium.

The Commission wants cuts of up to 30 per cent in *guaranteed prices for milk*, beef and cereals to make those sectors more competitive and better able to export.

Mr de Castro said Italy accepted the need for a 20 per cent cut in guarantee prices for cereals, as the Commission has proposed, and could see merit in a big price cut for beef, where the Commission has proposed a 30 per cent reduction.

Italy has already joined the UK, Sweden and Denmark – widely seen as the EU's strongest supporters of free agricultural supporters – to press for the abolition of production-limiting milk quotas from 2006.

Mr de Castro said CAP reform including price cuts was necessary to prepare for the EU's expansion and for the next round of talks under the World Trade *Organisation*.

None the less his projection of Italy as a liberaliser will be treated with caution in some countries.

Some argue that Italy would benefit from freer markets in the main sectors – beef, milk and cereals – which are the subject of the Commission's reforms, but would be less keen to open up other sectors.

Nor is Italy offering the Commission unconditional support on the reforms. Mr de Castro, previously agricultural adviser to Romano Prodi, the former prime minister, is pushing hard for a re-balancing in the CAP between regions and sectors.

"I will be better able to explain price cuts if there is more equilibrium in the CAP," Mr de Castro said.

For example, beef farmers in Ireland received more than five times the support per kilo of beef than their counterparts in Italy, he said. Cereals received proportionally more support than fruit and vegetables.

His comments follow years of complaints by Italians that they have not benefited enough from the CAP. EU officials believe Italy now believes it can win more for itself in a more liberalised markets system.

Paolo de Castro: accepts need for cuts in guaranteed prices

Ownership of Chilean copper mine in doubt

By Kenneth Gooding in London and Tim Burt in Stockholm

The future ownership of one of the biggest copper mines in Chile was called into question yesterday when Outokumpu, the Finnish mining and metals group, agreed to sell its 50 per cent shareholding in the Zaldivar mine to Canada's Aur Resources for $265m cash.

However, Placer Dome, the Canadian group that owns the other half, has pre-emptive rights on Outokumpu's stake in Zaldivar, which is located in the Atacama desert 175km south-east of Antofagasta.

Placer said as recently as May that Zaldivar no longer fitted its long-term strategy as a gold miner – it is Canada's second largest gold producer – and it was considering selling its stake. Yesterday, however, it revealed that, since May, it "had tested the market and found it wanting".

Hugh Leggatt, media relations manager, added: "We will evaluate what this transaction means to the partnership. We regard Zaldivar as a valuable asset, even though it does not fit our commodity strategy."

He said Zaldivar was producing at above its annual capacity of 125,000 tonnes at cash production costs below 50 cents a pound.

Outokumpu said output and cost-efficiency had improved at Zaldivar – which had production problems after it started up in November 1995 – but its financial contribution had been hit by low prices.

In the first nine months of this year the Finnish group lost FM96m ($18.5m) on its Zaldivar stake, compared with a loss of FM61m for the whole of 1997.

Aur Resources already owns 71 per cent of the Andacollo copper mine in Chile and 30 per cent of the Louvicourt copper mine in Quebec. It said that if the acquisition were completed, its annual copper output would rise from 66m lbs (30,000 tonnes) to more than 200m lbs (90,740 tonnes) next year. Its copper reserves would rise from 480m lbs to 2.5bn lbs.

Aur said Zaldivar was expected to produce 128,000 tonnes of copper this year at a cash cost of about 50 cents a pound.

The company hopes to finance the purchase with a mixture of project debt, equity and its existing cash resources. Outokumpu will help with the financing, should Aur require it, by subscribing for Aur shares.

Zaldivar is an open pit mine that was originally expected to produce 2m tonnes of copper over its 19-year life at an average cash cost of $1,146 a tonne (52 cents a pound). Copper cathodes are produced by the solvent extraction-electro winning process that excludes the use of expensive refining facilities.

After the deal was announced, in Helsinki Outokumpu's most commonly traded A shares rose FM3.10, or 6.9 per cent, to FM48.20, while in Toronto Aur shares were up 10 cents, or 3 per cent, at C$3.10.

SUGAR USDA FORECASTS GREETED WITH SURPRISE

Consumption seen topping supply

By Paul Solman

Global sugar consumption could exceed production this season, the first time it has done so since 1993/94, according to the US Department of Agriculture.

Sugar output is expected to hit a record 126.5m tonnes in 1998/99, USDA said in its latest "World Sugar Situation" report, while consumption is forecast at 127.5m tonnes.

USDA's figures were greeted with surprise by analysts yesterday, as most research has suggested that sugar would remain oversupplied.

However, Lawrence Eagles at commodity broker GNI, said: "The USDA forecast certainly adds weight to the belief that the sugar surplus is not as bad as had been thought."

Mr Eagles said the market had been expecting oversupply of around 4m tonnes, but the latest International Sugar Organisation report had put the surplus at 2m tonnes.

"The USDA forecast is more evidence that sugar prices are due for a readjustment upwards," he said.

Sugar futures prices on the London International Financial Futures and Options Exchange were little changed yesterday, with the most actively traded March contract for white sugar at $239.60 a tonne in late trading against Wednesday's close of $240.10.

Analysts said trading was subdued because the Coffee, Sugar and Cocoa Exchange in New York was closed for the Thanksgiving holiday.

"The US tends to drive the market, so we'll probably have to wait until Monday to see any real reaction," Mr Eagles added.

USDA said the European Union, the world's largest sugar producer, would turn out 18m tonnes this season, 7 per cent below the record harvest of 1997/98, after output was hit by lower yields and a smaller planting area.

India's production follows a cycle where two to three good years are followed by two or three poor years, USDA said.

"Following two consecutive years of record sugar production in 1994/95 and 1995/96, production declined 20 per cent in 1996/97 and also fell in 1997/98. In 1998/99, sugar production is expected to rise to 16.8m tonnes," the agency said.

That would make India the second largest producer, ahead of Brazil, which USDA said would produce a record 16.6m tonnes in 1998/99, a rise of 6 per cent.

Among the smaller producers, Canada is expected to raise production by 37 per cent to 130,000 tonnes after an expansion drive led to a 24 per cent increase in beet plantings in Alberta, the main producing province.

Ontario also doubled plantings, though the beets there are being grown under contract for Michigan Sugar in the US.

Leading sugar producers
Production forecasts for 1998/99

	(Million tonnes, raw value)
EU	19.0
India	16.8
Brazil	16.6
US	7.3
Australia	5.4
Mexico	5.1
Thailand	4.2
Cuba	3.2
Poland	2.2
Guatemala	1.8
Russia	1.2

Source: US Department of Agriculture

Oil moves back above $11 a barrel

MARKETS REPORT

By Paul Solman and Kenneth Gooding

Crude oil prices recovered slightly from their slide of the previous day, with the benchmark contract on London's International Petroleum Exchange moving back above $11 a barrel.

The price had dropped to $10.65 on Wednesday – its lowest for 12 years – after the Organisation of Petroleum Exporting Countries announced from its conference in Vienna that it had postponed until next year any decision on further production cuts.

The market had hoped for a commitment to add to the cuts of 2.6m barrels a day agreed earlier this year in an effort to support prices, though many analysts had acknowledged ahead of the meeting that firm action by Opec was unlikely.

In late trading in London yesterday, Brent blend for January delivery was $11.00 a barrel compared with Wednesday's close of $10.90.

The New York Mercantile Exchange was closed for the US Thanksgiving holiday.

Opec will hold its next conference on March 23, and Iran said yesterday it would press for further production cuts of 1.5m barrels a day.

In other oil news, Mexico said its average oil price had fallen to its lowest for more than 14 years, at about $8.15 a barrel.

Falconbridge, the Canadian group, reported that an accident at its Kidd Creek copper smelter – which caused no injuries – was likely to cost three weeks' output, equivalent to about 8,000 tonnes.

There is also a continuing strike at Grupo Mexico, causing a loss of roughly 3,000 tonnes a week. Analysts said, however, this was far too small to affect the copper price.

On the London Metal Exchange, three-month copper closed $9 a tonne higher at $1,596.

Trading on the LME was unusually quiet because of the US Thanksgiving holiday.

Tin rose by more than 1 per cent, or $60 a tonne, to $5,350, and the premium for metal for immediate delivery, compared with three-month tin, widened to $14¼ a tonne.

Meanwhile, the price of nickel for delivery in three months ended $5 a tonne lower at $4,130, in spite of reports that there were delays in deliveries from Norilsk, the Russian producer, because of ice-breaker problems.

NEWS DIGEST

GOLD

Big producers continue to reduce operating costs

The world's big gold producers are continuing to drive down costs substantially in the face of a gold price languishing near 11½-year lows. In the quarter to the end of September, according to the World Gold Analyst publication, they lowered their average cash operating costs by a further 7 per cent, or US$14 a troy ounce, from the previous three months to US$196 an ounce.

However, Paul Burton, editor of WGA, which monitors results from the 67 biggest gold producers, says: "Some of the improvements can be attributed to the weakening of producer currencies against the US dollar. The South African rand, for instance, declined by 20 per cent from the June quarter to the September quarter, which clearly had a significant impact on dollar denominated costs."

The lowest cost producer in the September quarter was Australia's Delta Gold, with total cash costs of US$89 an ounce from its interests in the Granny Smith and Kanowna Belle mines in Australia. Total production costs, which include non-cash items, for Delta were $133 against an average spot gold price of $289 in the quarter and Delta's received price (after hedging) of $304.

Canada's Placer Dome also benefited from the performance of Granny Smith, with total cash costs of $128 an ounce and total production costs of $202. Placer Dome's overall result was also boosted by cash costs of less than $60 an ounce at the Cortez mine in Nevada.

South African producers collectively were the biggest producers, but their cash costs remained above the industry average. Mr Burton pointed out that the South Africans generally have lower non-cash (amortisation) charges than their North American or Australian counterparts, making them more competitive on total production costs.

According to the WGA, South Africa produced 3.8m ounces of gold in the quarter at cash costs of $215 an ounce; Canada produced 2.98m ounces at cash costs of $178; the US, 2.56m ounces at $194; and Australia, 1.968m ounces at $191. A further 1.4m ounces were produced in other parts of the world at cash costs of $179 an ounce.

Kenneth Gooding, Mining Correspondent

World Gold Analyst, quarterly from Mining Journal, 60 Worship Street, London, EC2A 2HD, UK, US$595 a year.

COFFEE

World output forecast to rise

World coffee output will total 105m 60kg bags in the 1998-99 season, according to analysts F.O. Licht, up from 95m bags in 1997-98. Arabica production will amount to 73m bags while robusta will total 32m bags. Brazil remains by far the world's biggest coffee producer, at about 35m bags, while Colombia will produce 12.5m bags. Together, South American countries will produce almost half of the world's coffee in 1998-99 at about 52m bags, F.O. Licht said.

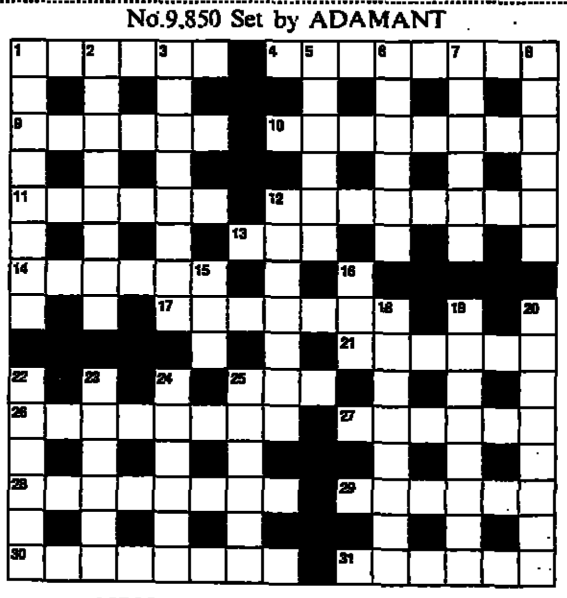
"While supplies seem to be ample this season, there is some concern with respect to the 1999-2000 crop," the analysts added. "Brazilian production is forecast to fall sharply next season, mainly because of the biennial nature of the coffee plant. Some estimates are as low as 22m bags." **Paul Solman**

JOTTER PAD

For solutions to today's crossword call 0891 430060. Calls cost 50p a minute.

CROSSWORD

No.9,850 Set by ADAMANT



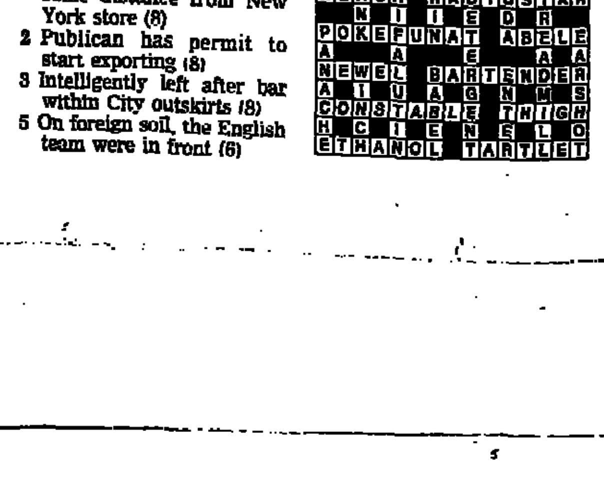
ACROSS

1 Author about to be left in charge of the lawmen (6)
4 Argentinian ruler took the point: a First Lady is one's own concern (8)
9 Tell from the sign? (6)
10 Spice girl making comeback before Monday? A hundred to one at the start (8)
11 Made money, but left a smell (6)
12 Respectful first round – eventer needs training (8)
13 Show approval about the fellow (3)
14 Developed role in church of New Orleans (6)
17 Main beam at a road blocked by army manoeuvres (7)
21 Using other ways to harness English spirit (6)
25 You and I quietly take back seat (3)
26 Officers need information on laser operation (8)
27 Heartache of governess who embraced American soldier (6)
28 For example, say we'd moved on the side (8)
29 Negligent about the girl (6)
30 Speaks ill of topless people on Crete, for example (8)
31 Rest an injured back (6)

DOWN

1 Chemist's shop is said to be some distance from New York store (8)
2 Publican has permit to start exporting (8)
3 Intelligently left after bar within City outskirts (8)
5 On foreign soil, the English team were in front (6)
6 At the end of the day, society is not firm enough (6)
7 One, for example, is less capable of feeling (6)
8 Initially Lloyd George, then, was over the distance (6)
12 Louts make a line on the other side (7)
15 Leading educationalists are recommending the organ (3)
16 Measurement of the work done in Upper Guinea (3)
18 Imply the German skinhead is off course (8)
19 Make a savage change (8)
20 Special forces initially suspected, as in the case of a killer (8)
22 Birds for example have disturbed rest (6)
23 Meaning to drop the name – it could turn out to be a problem (6)
24 Was jubilant at the credit due (6)
25 One who gives about a pound back, perhaps (6)

Solution 9,849



COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne) ■ ALUMINIUM ALLOY ($ per tonne) ■ LEAD ($ per tonne) ■ NICKEL ($ per tonne) ■ TIN ($ per tonne) ■ ZINC, special high grade ($ per tonne) ■ COPPER, grade A ($ per tonne) ■ LME AM Official £/$ rate: 1.6558

	Cash	3 mths
[illegible]	[illegible]	[illegible]

PRECIOUS METALS

■ LONDON BULLION MARKET (Prices supplied by N M Rothschild)

Gold (Troy oz)	$ price	£ equiv	SFr equiv
Close	296.30-296.60		
Opening	296.10-296.60		
Morning fix	296.25	178.98	417.12
Afternoon fix	296.40	178.77	417.63
[illegible]	[illegible]	[illegible]	[illegible]

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	77.80	-0.30	78.00	77.85	174	2,319
Mar	79.70	-0.30	79.75	79.70	87	3,132
May	81.70	-0.30	81.75	81.65	212	2,516
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ BARLEY LIFFE (100 tonnes; £ per tonne) ■ POTATOES LIFFE (20 tonnes; £ per tonne) ■ FREIGHT (BIFFEX) LIFFE ($10/index point)

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

ENERGY

■ CRUDE OIL IPE ($/barrel) ■ GAS OIL IPE ($/tonne) ■ NATURAL GAS IPE (1,000 therms; pence per therm)

	Sett price	Day's change	High	Low	Vol	Open int
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne) ■ COFFEE LIFFE (5 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Softs continued

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	240.1	-	240.5	239.5	106	20,632
May	241.8	-0.3	242.4	241.9	16	5,138
Aug	242.5	-0.8	242.9	242.9	10	3,557
Oct	236.3	-1.8	236.9	236.9	10	3,649
Dec	238.4	-3.2	-	-	-	310
Mar	241.4	-2.9	-	-	-	638
Total					142	33,834

FUTURES DATA
All futures data supplied by CMS

LONDON TRADED OPTIONS

■ ALUMINIUM ■ COPPER ■ COFFEE LIFFE ■ COCOA LIFFE ■ BRENT CRUDE IPE

Strike price $ tonne	Calls		Puts	
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

PULP AND PAPER

■ PULPEX (NBLX) (SEK 24 air dry tons)

	Sett price	Day's change	High	Low	Vol	Open int
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

INDICES

■ Reuters (Base: 18/9/31 = 100) ■ CRB Futures (Base: 1967 = 100) ■ GSCI Spot (Base: 1970 = 100)

Nov 26	Nov 25	month ago	year ago
[illegible]	[illegible]	[illegible]	[illegible]

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$10.98-1.13x	-0.275
Brent Blend (dated)	$10.68-0.78	+0.30
Brent Blend (Jan)	$10.93-1.03	-0.05
W.T.I.	$12.04-2.10x	

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

		+or-
Premium Gasoline	$124-126	-2
Gas Oil	$96-97	-2
Heavy Fuel Oil	$58-59	-1
Naphtha	$124-126	-2
Jet fuel	$114-115	-0.5
Diesel	$105-107	-4.5

■ NATURAL GAS (Pence/therm)

		+or-
Bacton (Dec)	14.35-14.40	-0.05

■ OTHER

		+or-
[illegible]	[illegible]	[illegible]

Wool from Mallett & Co

Signs that this month's recovery in prices might have peaked last week were confirmed in Australia when prices fell at opening sales this week, but there was no collapse and the trade has regained some confidence in recent days. The main eastern market indicator ended the week at 512 cents a kg, down 17 cents from November 19. New Zealand's indicator was 413 cents, down 11 cents in the same period. With only three weeks of auctions to go until the Christmas recess, which lasts until January 11, there is little likelihood that October's lows will be reached again this year.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

Fidelity Currency Funds Ltd
Pembroke Hall, Pembroke, Bermuda

Jupiter Asset Management (Bermuda) Ltd
PO Box HM1256, Hamilton, Bermuda 001 441 292 2760
Jupiter Tyndall World Umbrella Fund Ltd

Newport Investment Management
20 Reid St, PO Box HM 3296 Hamilton Bermuda

Orion Fund Limited
6 Front St., Hamilton, HM11, Bermuda HM 11441 292 6370
Orion (Sasa) Oct 15 — $27.86

BERMUDA (REGULATED)(**)

Bermuda Intl Invest Mgmt Ltd
Anchor Intl Nov 24 — $34.2871 34.2871 — 1.23

Marshall Wace Asset Management Limited
Masters International Advisors
Montgomery Emerging Markets Fund Ltd
NAV Oct 16 — $750 10
Morgan Stanley Offs Advisory Mortgage Fd Inc
Class A Shares — $10.14
National Investment Trust Company Ltd
The New Taipei Fund Ltd — $19.7814
North Atlantic Management Co Ltd
Compass — $15.60 16.07
Olympus Capital Management Ltd
Omega Overseas Partners Ltd
Omega Overseas (Ex) Nov 18 — $244.8783
Opportunity Fund (z)
Orion Capital Advisors Ltd
The Osprey Group Of Funds
Centaur Fund Ltd — $9.3029
Pacific & General Investments Inc
NAV — $1.2855
Pakistan Fund
Paulson International Ltd
NAV Oct 31 — $127 49
Perry Partners International Inc
NAV Oct 31 — $198.04
Philippine Income Fund Inc
NAV Nov 18 — $7.99
Pro Value AG
European Focus Nov 20 — DM232 72
Prospector Fund Management Ltd
Prudential Securities Futures Mgmt, Inc
Putnam Offshore Funds

CAYMAN ISLANDS (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (FSA RECOGNISED)

AIB Fund Management Ltd

Bank of Cyprus Group

IRELAND (REGULATED)(**)

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

Royal Bank of Scotland Fd Mgrs (Jersey) Ltd

Royal Bank of Scotland International Ltd

JERSEY
(REGULATED)(**)

Aberdeen Fund Mngrs (Luxembourg) Ltd (u)

American Phoenix Investment Portfolios (u)

Foreign & Colonial Portfolios Fd Sicav(u)

Framlington International Portfolios

Mercury Asset Management - Contd.

LUXEMBOURG
(REGULATED)(**)

ACM Offshore Funds

Credit Suisse Asset Mgmt Funds - Contd.

Merrill Lynch Asset Management - Contd.

UBS AG - Contd.

OFFSHORE INSURANCES

LUXEMBOURG
(FSA RECOGNISED)

هكذا من الأصل

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING MATS. & MERCHANTS

CHEMICALS

CONSTRUCTION

CONSTRUCTION - Continued

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Continued

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

FOOD PRODUCERS

FOOD PRODUCERS - Continued

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Continued

HOUSEHOLD GOODS & TEXT

INSURANCE

INSURANCE - Continued

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Continued

INV TRUSTS SPLIT CAPITAL

صكنا من الاجل

LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Continued

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Continued

PROPERTY - Continued

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Continued

SUPPORT SERVICES

SUPPORT SERVICES - Continued

TELECOMMUNICATIONS

TOBACCO

TRANSPORT

TRANSPORT - Continued

WATER

AMERICANS

CANADIANS

SOUTH AFRICANS

TRADED INDEX SECURITIES

AIM

Alternative Investment Market

AIM - Continued

UA Group	172½	—	289	141½	–	3.4	–
VDC	135	—	226	132½	–	5.1	11.6
VFG	43½	—	64½	37	–	2.9	9.1
VI	17½	—	59½	16	–	–	10.6
Victory Corpn	11½	—	47	8½	–	–	–
WILL	35	—	65½	25½	–	–	34.3
Weather Action	60½	-1	97½	60½	–	–	–
Weeks Group	2¼	—	5¼	2¼	–	5.0	7.1
West 175 Ents	68	—	87	45	–	–	–
West Bromwich Albion	£115	—	£145	255	–	–	13.3
Western Select	7¼	-¼	13½	7¼	–	4.0	18.0
Westmoreland Energy	28	+½	308	18½	–	–	♦
Winchester	70½	—	84½	55½	–	–	38.9
World Telecom	65	—	286	65	–	–	–
Xavier Computer	13¼	-¼	15	5½	–	–	13.1
Yeoman	55½	—	89½	54	–	–	–

GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. For FTSE 100 index constituents and reserves contained in the Trading Volume table on the LSE page, last trade prices at or prior to 4:30pm market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS"). Highs and lows are based on intra-day mid-price/last trades over a rolling 52 week period.

Trading Volumes are end of day accumulated totals. Dashes indicate that either no trade has taken place during the day or the data is not available for these particular securities. Volumes shown for foreign securities are based on London trading.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

* Highs and lows marked thus have been adjusted to allow for capital changes

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Takeover euphoria helps Footsie recross 5,800

MARKET REPORT
By Steve Thompson,
UK Stock Market Editor

The prospect of more mega-mergers among global oil companies and a flurry of domestic takeover deals re-ignited London's equity market yesterday.

The market had shown distinct signs of running out of steam over the previous two sessions, with stock prices wilting in the face of persistent profit-taking which gnawed away at some of the excellent gains of the past week.

Reports that Exxon and Mobil, the two biggest oil companies in the US, are involved in talks that could lead to Exxon snapping up Mobil saw UK shares recover from an initial bout of uncertainty and recross the 5,800 level.

Dealers in London said the Exxon/Mobil story would inject fresh strength into a US stock market already riding on the crest of a wave and also lifted by recent *takeover action, specifically* news of the Deutsche Bank/Bankers Trust bid talks.

Adding to the bullish mood of the market was the latest burst of takeover activity among UK stocks.

That included a bid for Marston Thompson & Evershed from fellow brewer Wolverhampton and Dudley, as well as bid approaches to Abbott Mead Vickers, the advertising agency, and to BCH, the vehicle financing group.

And there was a dramatic finale to the London session with a reverse takeover offer from John Mansfield for *Marley, the building materials group,* which has long been seen as a potential target.

All that bid news brought a renewal of the market's euphoria and saw the FTSE 100 advance strongly to finish a session of unexpectedly good turnover levels a net 72.6 higher at 5,827.9.

At its best, only minutes before the close of the session, the index was on the threshold of a three-figure gain, but dipped sharply as more flurries of profit-taking hit the market.

The steepling gains in the leaders were not replicated *by the FTSE 250 and FTSE* SmallCap stocks, but both indices managed to record good gains on the day.

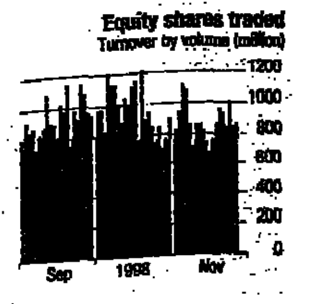
The 250 index settled 14.5 higher at 4,940.9, just a shade off the day's best, while the SmallCap was finally 5.4 to the good at 2,067.6.

The takeover euphoria tended to overwhelm other news which would normally have affected the market. The latest Confederation of British Industry survey of industrial trends was every bit as gloomy as most commentators expected.

And dealers noted comments made to the Treasury Select Committee by Willem Buiter, a member of the Bank of England's monetary policy committee, that the "risks" to the London stock market were "on the downside" and that it was "very hard to rationalise these price-earnings multiples".

Richard Jeffrey, group economist at CCF Charterhouse, said: "By cutting interest rates, the monetary policy committee has persuaded investors to become less risk-averse."

And the strategy team at BT Alex Brown said: "The market is due a period of consolidation. But given that we think policy will be eased if the economy weakens, then the market is also reasonably well underpinned."



Indices and ratios

FTSE 100	5827.9	+72.6	FT 30	3504.9	+34.8
FTSE 250	4940.9	+14.5	FTSE Non-Fins p/e	21.96	21.71
FTSE 350	2758.5	+30.1	FTSE 100 Fut Dec	5884.0	+108.0
FTSE All-Share	2660.89	+27.98	10 yr Gilt yield	4.82	4.90
FTSE All-Share yield	2.95	2.93	Long gilt/equity yld ratio	1.62	1.67

Best performing sectors
1 Breweries: Pubs & Rest. .... +3.7
2 Oil: Integrated .... +3.1
3 Telecommunications .... +3.1
4 Resources .... +2.5
5 Support Services .... +2.5

Worst performing sectors
1 Oil Exploration & Prod .... −3.5
2 *Retailers: General* .... −1.7
3 Building Matls & Merchs .... −0.6
4 Property .... −0.3
5 Transport .... −0.1

Merger talks give oils lift

COMPANIES REPORT
By Peter John, Joel Kibazo and Martin Brice

Surprise news that US groups Exxon and Mobil have been holding merger talks prompted a savage bear squeeze in the UK majors.

BP jumped 23½ to 956½p and Shell leapt forward 14½ to 387½p with turnover of 38m, leaving it the most heavily traded stock in the Footsie.

The gains reversed the recent trend that has seen the majors dragged down by a number of speculative stories. It has been alleged that marketmakers left desperately short of stock have been trying to bring prices lower in order to balance their books.

But yesterday they were hamstrung by the report that consolidation was still the industry buzz word and the share prices completely ignored the persistent weakness in underlying oil prices.

One analyst said: "It shows that when oil prices get tough there are opportunities at least to maintain shareholder value through cost-cutting."

Others said there was relief that the competition structure in the so-called super-league would remain unaffected by a deal. Chevron had been mooted as the other possible partner for Mobil and that would have raised the stakes.

However, Steve Turner at HSB Securities warned that a merger would lead to "*significant competition issues* particularly in the European downstream area".

The bid by timber group **John Mansfield**, which has a market capitalisation of £18m, for FTSE 250 building materials group **Marley**, 10 times its size, was greeted with relief by the market.

Although Marley issued a statement rejecting the bid after the market had closed, its shares soared on the announcement of the all-paper offer. It was the best performer in the FTSE 250, gaining almost 16 per cent or 13 to 98½p. Earlier this year it stood at 139p before later halving. John Mansfield ended the day easier at 6¼p.

David Taylor at Teather & Greenwood said: "Marley is an unfocused conglomerate and as such would be quite easy to unbundle. Its management has fallen so out of favour that the City would look at a bid for Marley from the Dagenham Girl Pipers."

Hopes that the ending of a bitter and very public boardroom tussle at Marks and Spencer would herald a change of market sentiment towards the group were dashed yesterday, sending the shares tumbling.

As one of the country's leading retailers moved to rescue its public image with the announcement that Peter Salsbury had won the *race to be chief executive,* analysts and dealers remained decidedly cool about the news.

One sector specialist said: "There is a feeling in the market that with Sir Richard Greenbury still around as chairman until 2000, he will be in control through the back door, thus there will be *little change*."

Another sector watcher said: "This stock remains expensive above the 400p level, given the continued economic uncertainty and lack of news on a clear strategy from Marks."

On an otherwise strong day in the market, the shares fell 24½ to 421p, making it one of the worst performers in the FTSE 100. Volume was 18m.

Regional brewer Marston, Thompson & Evershed received the bid that Wolverhampton & Dudley Breweries had signalled earlier this month. Marston shares, which touched 360p earlier this year, gained 41 to 287½p in a brisk 6.9m traded. Wolves was down 5 at 425p.

Other regional breweries benefited from the sign of consolidation in the sector, *with Greene King up 14½ at* 535p and Greenalls 15 to 356½p.

One of the best FTSE 250 performances came from W.S. Atkins as the highly rated stock regained some of the premium it lost in the wake of the announcement that it was to buy Bovis Group from P&O.

Traders had marked down Atkins on fears that the consultancy group would be forced to resort to a rights issue to pay for the deal. However, yesterday Geoff Allum, analyst at Henderson Crosthwaite, allayed many of those fears in a research note that examined the financial implications of the purchase.

Atkins gained 32½ to 527½p after he concluded: "Such a deal has commercial logic, will be substantially earnings enhancing, and need not require a rights issue."

He believes P&O is likely to take a stake of 14 per cent in Atkins as a result of the purchase, and upgraded his stance on the stock from "sell" to "hold/buy".

BPB was down more than 16 per cent as news of a European Commission investigation into industry pricing overshadowed interim results in line with expectations. *The shares fell 42 to* 217p.

Sentiment in prospects for future results was not helped by the company's statement that second-half trading would be "challenging". Weakness in plasterboard prices would be offset by higher volumes and cost efficiencies.

Food producer Devro walked away with the dubious honour of being the worst performer in the FTSE 250 after it posted a profits warning.

The company said worsening trading conditions meant it now expected to report underlying profits of about £40m. Analysts had been *expecting profits in the* region of £53m.

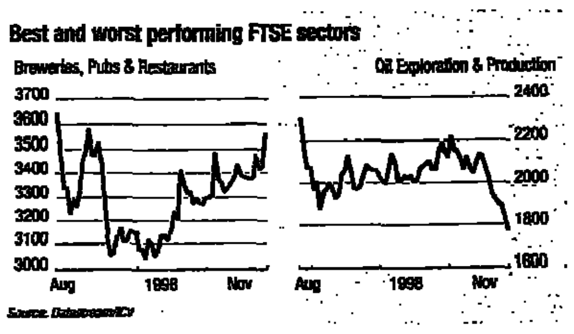
British Telecommunications was in demand, the shares jumping 42 to 870p. The company said it had won a £100m 10-year contract with the UK Prison Service to provide a new type of telephone system for prison inmates.

Explaining yesterday's demand, Chris Godsmark at Henderson Crosthwaite said: "People have realised the regulatory uncertainty earlier this week over the link up with AT&T is much smaller than some had feared."

Drinks and hotels group Bass was also wanted. The shares jumped 60 or 7.59 per cent to 850p.

Investment trust group 3i led the way forward in yesterday's Footsie gallop as the market welcomed a 10 per cent dividend rise.

Revenue profit before tax was up 18 per cent and the group's total return on opening shareholders' funds was well ahead of the performance achieved by the FTSE SmallCap Total Return Index. The shares ran ahead 57 to 590p.



FT 30 INDEX

	Nov 26	Nov 25	Nov 24	Nov 23	Nov 20	Yr ago	*High	*Low
FT 30	3504.9	3470.1	3485.1	3531.1	3434.5	3160.7	4004.9	2790.6
Ord. div. yield	3.00	3.03	3.01	2.98	3.04	3.58	4.22	2.72
P/E ratio net	22.38	22.12	22.24	22.48	22.04	20.56	25.41	15.80
P/E ratio nil	22.29	22.03	22.15	22.39	21.95	20.28	25.19	15.71

FT 30 since compilation: high 4004.9 15/07/98; low 49.4 26/06/40. Base Date 1/7/35

FT 30 hourly changes

9	10	11	12	13	14	15	16	High	Low
3470.1	3481.7	3497.1	3504.6	3512.5	3504.7	3508.0	3508.4	3520.9	3463.0

STOCK MARKET TRADING DATA

	Nov 26	Nov 25	Nov 24	Nov 23	Nov 20	Yr ago
SEAQ bargains	59,206	60,905	75,412	81,355	77,292	39,740
Equity turnover (£m)†	-	-	2930.9	2875.3	3347.6	3139.8
Equity bargains†	-	-	67,146	70,449	66,229	35,907
Shares traded (m)†	-	-	815.3	799.6	915.1	871.7
Total market bargains‡	-	n/a	n/a	n/a	77,607	-
Total turnover (£m)‡	-	n/a	n/a	n/a	4168.0	-
Total shrs traded (m)‡	863.7*	n/a	n/a	n/a	1078.5	-
Tradepoint turnover (£m)	23.3	22.0	18.8	22.9	20.9	11.9
Tradepoint shrs traded(m)	8.54	9.1	9.6	11.5	9.4	5.8

†Excluding intra-market and overseas turnover but including Crest turnover. *UK only total at 6pm. ‡ UK plus intra-market turnover

■ London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	855	Total Highs	39	Total contracts	25,604
Total Falls	517	Total Lows	58	Calls	8,535
Same	1,552			Puts	17,069

Nov 26 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	5815.0	5884.0	+108.0	5898.0	5801.0	11825	191385
Mar	5871.0	5935.0	+108.5	5926.0	5858.0	1584	21599
Jun	-	5984.0	+108.0	-	-	0	10990

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	-	4961.0	+14.0	-	-	0	8494

■ FTSE 100 INDEX OPTION (LIFFE) (*5846) £10 per full index point — Nov 26

	5650 C	5650 P	5700 C	5700 P	5750 C	5750 P	5800 C	5800 P	5850 C	5850 P	5900 C	5900 P	5950 C	5950 P	6000 C	6000 P
Dec	299½	62	263	76½	228½	91	192	108½	163	131	134½	154½	109½	182	89½	213½
Jan	396	143	358	156½	325	172½	295½	192½	265½	213	236	233½	206½	255	181½	282
Feb	472½	200½	438	217	408	237	377½	257	347½	277	317½	298	287½	319½	260	344
Mar	526½	254½	486½	273	466	292	436	311½	405½	331	375½	351	345½	371½	317½	395
Jun†			656	396½			594½	432½			633	469			471	508

Calls 296 Puts 465

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point — Nov 26

	5650 C	5650 P	5700 C	5700 P	5750 C	5750 P	5800 C	5800 P	5850 C	5850 P	5900 C	5900 P	5950 C	5950 P	6000 C	6000 P
Dec	299½	62	263	76½	228½	91	192	108½	163	131	134½	154½	109½	182	89½	213½
Jan	396	143	358	156½	325	172½	295½	192½	265½	213	236	233½	206½	255	181½	282
Feb	472½	200½	438	217	408	237	377½	257	347½	277	317½	298	287½	319½	260	344
Mar	526½	254½	486½	273	468	292	436	311½	405½	331	375½	351	345½	371½	317½	395
Jun†			656	396½			594½	432½			593	469			471	508q

Calls 5,380 Puts 7,098 * Underlying index value. Premiums shown are based on settlement prices.
† Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1998 High	1998 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
-	F.P.	4.75	95	65	†Chariot	95	+2	-	-	-	-
§	F.P.	6.10	117	107	Collective Assets Tst	117		-	-	-	26.3
-	F.P.	406.3	325½	229½	First Active	297½	−1	-	-	-	17.9
-	F.P.	-	110¾	104	Five Arrows Chile	110¼	+¼	-	-	-	-
-	F.P.	-	116¾	105¾	Do Uts Cv Ln 2040	116¾	+½	-	-	-	-
-	F.P.	-	18	6	Do Warrants	15		-	-	-	-
*	F.P.	118.2	236½	200	Gartan	233½	+6	W20.54	2.2	9.3	5.2
§	F.P.	21.8	104	100½	Guinness Fl Grd I&G	103		-	-	-	-
§	F.P.	6.53	109	101	Do Inc	108		-	-	-	-
§	F.P.	16.2	107½	100	Do Zero Div Prf	107		-	-	-	-
§55	F.P.	14.5	65½	58½	†Honeycombe Leisure	64½	−½	-	-	-	10.2
-	F.P.	17.8	104	100	INVESCO Recovery	102¾		Fv9.05	-	9.4	-
-	F.P.	13.2	104¾	100¾	Do Zero Div Pref	104¾		-	-	-	-
§97	F.P.	6.85	103	79¾	MSW Technology	83½		-	-	-	12.6
-	F.P.	37.3	12½	10	Marley B	11		-	-	-	-
§	F.P.	5.17	5½	4¾	†Natural Bldg Mts	5¼		-	-	-	-
§	F.P.	2.10	105	105	†Do Cnv Prf	105		-	-	-	-
§	F.P.	13.8	27½	27¼	†Ottoboro Tool & En	27½		-	-	-	-
-	F.P.	-	62½	50¾	†Old Monk Company	54		-	-	-	13.6
-	F.P.	7.64	93	90½	Piccadilly Growth	92½	+2	1.6	0.6	2.2	72.5
100	F.P.	-	103	93	REXAM B	94	−1	-	-	-	-
§	F.P.	15.0	100	100	Singer&Frd AIM VCT	100		-	-	-	-
-	F.P.	-	15½	13½	Thistle Hotels Prf	15		-	-	-	-
-	F.P.	-	15	5	Xenova Warrants	13½		-	-	-	-

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FTSE GOLD MINES INDEX

	Nov 25	% chg on day	Nov 24	Year ago	Gross div yield %	Total return	52 week High	52 week Low
Gold Mines Index (29)	1093.88	−1.8	1114.11	1030.89	1.70	1098.59	1351.57	701.58
■ Regional Indices								
Africa (9)	1212.24	−1.2	1226.98	1112.34	3.37	1218.39	1488.04	765.63
Australasia (9)	1242.02	−3.2	1283.19	1042.46	2.47	1247.45	1600.53	615.93
Americas (11)	1035.35	−1.8	1054.19	1028.40	0.73	1036.45	1317.41	647.69

 Figures in brackets show number of companies. Basis US Dollars. Base Value: 1000.00 31/12/92. † Partial. Latest prices were unavailable for this edition.

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Nov 26	Day's chge%	Nov 25	Nov 24	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	5827.9	+1.3	5755.3	5798.3	4898.0	2.77	2.37	1.87	22.81	135.06	2575.89
FTSE 250	4940.9	+0.3	4926.4	4923.9	4658.5	3.57	3.04	2.14	16.40	126.18	2143.15
FTSE 250 ex Inv Tr	4960.5	+0.2	4951.3	4946.9	4947.4	3.72	3.18	2.21	15.23	130.95	2180.71
FTSE 350	2758.5	+1.1	2728.4	2746.2	2381.2	2.90	2.48	2.00	21.51	84.95	2452.45
FTSE 350 ex Inv Tr	2765.0	+1.1	2735.5	2752.3	2384.5	2.91	2.49	2.02	21.29	85.47	1281.53
FTSE 350 Higher Yield	2874.4	+1.3	2840.8	2858.3	2395.3	3.06	3.28	1.82	19.87	62.21	2072.24
FTSE 350 Lower Yield	2839.4	+0.9	2814.4	2831.0	2380.1	1.87	1.62	2.19	30.49	62.77	2078.59
FTSE SmallCap	2067.61	+0.3	2062.16	2064.69	2309.98	4.01	3.28	1.59	15.68	56.53	1821.07
FTSE SmallCap ex Inv Tr	2018.25	+0.2	2012.05	2012.66	2276.89	4.38	3.58	2.09	13.65	59.82	1795.81
FTSE All-Share	2660.89	+1.1	2632.91	2648.51	2308.97	2.95	2.51	2.00	21.15	63.10	2440.14
FTSE All-Share ex Inv Tr	2670.70	+1.0	2643.20	2658.74	2314.03	2.97	2.53	2.02	20.83	63.85	1260.18

■ FTSE Actuaries Industry Sectors

	Nov 26	Day's chge%	Nov 25	Nov 24	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 RESOURCES(20)	4320.21	+2.5	4214.04	4242.82	4401.16	3.45	3.08	1.51	23.92	132.78	2016.12
12 Extractive Industries(8)	2784.34	+0.7	2765.20	2712.87	2992.25	4.91	4.52	1.59	12.79	130.45	898.87
15 Oil, Integrated(3)	5030.90	+3.1	4878.60	4922.90	4631.51	3.29	2.81	1.45	26.21	145.75	2414.05
16 Oil Exploration & Prod(11)	1777.24	−3.5	1842.22	1865.00	3085.34	3.09	2.70	0.95	42.25	46.95	1112.36
20 GEN INDUSTRIALS(211)	1780.60	+0.7	1768.14	1778.89	1976.67	4.11	3.63	2.20	13.82	59.68	1063.80
21 Construction(39)	1271.41	+0.4	1265.77	1268.84	1328.89	4.63	4.13	2.13	13.19	53.64	1151.44
22 Building Matls & Merchs(28)	1568.54	−0.6	1577.87	1567.56	1792.59	4.79	4.13	2.13	12.27	56.57	869.83
23 Chemicals(23)	2014.68	+1.6	1983.78	1967.25	2438.59	4.55	4.26	1.53	17.98	72.95	1046.88
24 Diversified Industrials(6)	1077.53	+1.5	1061.92	1073.48	1314.16	5.15	4.88	2.09	11.60	58.20	683.28
25 Electronic & Elect Equip(26)	2562.92	+1.5	2525.78	2558.00	2188.22	3.00	2.43	1.86	22.47	60.32	1435.50
26 Engineering(59)	2321.62	+0.4	2313.10	2350.42	2660.42	4.16	3.71	2.25	13.33	62.48	1526.46
27 Engineering, Vehicles(10)	3233.54	+2.0	3171.41	3173.49	3369.16	2.76	2.53	3.27	13.86	75.72	1800.86
28 Paper, Pckg & Printing(22)	1541.54	+0.3	1536.70	1534.17	2130.38	5.76	5.35	2.45	8.84	68.02	708.33
30 CONSUMER GOODS(90)	5908.11	+1.0	5851.84	5887.98	4716.71	2.31	2.09	1.91	28.31	128.22	2361.26
32 Alcoholic Beverages(6)	3790.26	+1.3	3743.16	3794.26	3224.72	3.28	3.05	2.13	17.85	136.96	1518.92
33 Food Producers(26)	3737.86	+0.2	3731.50	3766.76	3212.54	2.40	2.08	2.31	22.53	83.68	1828.88
34 Household Goods & Texts(22)	2272.01	+0.4	2264.07	2291.91	2919.44	4.61	4.10	1.78	15.20	89.97	974.20
36 Health Care(13)	2513.51	+1.7	2470.73	2455.68	2179.05	2.07	1.90	2.18	27.76	46.87	1622.69
37 Pharmaceuticals(20)	10272.85	+1.2	10148.84	10195.44	7755.01	1.72	1.60	1.59	45.77	165.24	3701.83
38 Tobacco(3)	7009.08	+0.1	6999.73	7000.73	4461.69	4.83	4.04	2.04	12.66	210.91	1986.30
40 SERVICES(279)	3385.81	+1.3	3344.95	3361.79	2800.83	2.57	2.11	2.11	23.03	63.31	1879.87
41 Distributors(29)	1947.85	+0.7	1934.82	1949.42	2514.06	5.09	4.20	2.00	12.38	73.51	778.50
42 Leisure & Hotels(28)	3109.00	+0.8	3085.01	3009.80	3241.38	3.10	2.62	2.60	15.46	78.87	1776.14
43 Media(39)	4252.25	—	4251.28	4261.52	4146.15	2.47	2.07	2.16	23.46	84.99	1624.24
44 Retailers, Food(13)	2891.50	+0.1	2889.45	2900.98	2592.42	3.17	2.54	2.14	18.45	68.90	1991.49
45 Retailers, General(49)	2009.17	−1.7	2043.15	2085.02	2337.47	3.80	3.05	2.11	15.61	59.48	1242.01
46 Telecommunications(8)	5026.40	+3.1	4876.00	4984.15	2583.19	1.79	1.47	1.70	41.07	51.74	2467.40
47 Breweries, Pubs & Rest.(24)	*3558.31*	*+3.7*	*3429.34*	*3417.74*	*3357.33*	*3.49*	*2.79*	*2.37*	*15.17*	*73.01*	*1830.29*
48 Support Services(64)	4361.67	+2.5	4256.87	4207.14	3319.33	1.42	1.20	2.73	32.27	49.54	2889.51
49 Transport(25)	3578.99	−0.1	3583.58	3592.79	2875.43	2.96	2.51	2.04	20.69	83.78	1615.37
60 UTILITIES(21)	4450.36	+0.7	4420.00	4466.25	3328.68	3.61	3.06	1.75	19.75	107.09	2153.74
62 Electricity(8)	4914.33	+0.5	4888.14	4955.52	3699.08	4.12	3.35	1.86	16.38	127.03	2914.20
64 Gas Distribution(2)	3677.49	+0.8	3648.78	3686.25	2409.90	1.84	1.47	‡	‡	54.02	2143.82
68 Water(11)	3873.02	+0.9	3841.56	3857.95	3180.96	4.56	4.21	2.38	11.53	112.14	2298.78
69 NON-FINANCIALS(621)	*2698.72*	*+1.2*	*2666.73*	*2683.04*	*2348.96*	*2.88*	*2.50*	*1.97*	*21.96*	*62.71*	*2222.95*
70 FINANCIALS(105)	5179.58	+0.6	5149.45	5176.24	4432.81	3.18	2.84	2.16	18.14	135.41	2423.22
71 Banks, Retail(12)	7779.14	+0.5	7743.53	7749.25	6464.16	3.28	2.63	2.12	17.95	199.47	2755.70
73 Insurance(15)	2303.60	+1.7	2264.56	2313.89	1969.22	3.06	2.89	2.01	20.30	77.07	1930.98
74 Life Assurance(8)	7230.35	+0.7	7178.86	7334.02	5426.93	2.67	2.30	2.70	17.36	167.30	3259.40
77 Other Financial(26)	3721.11	+0.1	3716.03	3695.02	3613.38	2.98	2.45	2.58	16.37	101.25	2293.63
79 Property(44)	1751.53	−0.3	1757.19	1740.95	2123.43	3.81	3.22	1.62	20.22	43.67	1161.32
80 INVESTMENT TRUSTS(115)	3592.11	+1.9	3525.91	3552.60	3283.83	2.26	1.85	1.18	46.70	60.19	1318.86
89 FTSE All-Share(841)	2660.89	+1.1	2632.91	2648.51	2308.97	2.95	2.51	2.00	21.15	63.10	2440.14
105 FTSE All-Share ex Inv Tr(726)	2670.70	+1.0	2643.20	2658.74	2314.03	2.97	2.53	2.02	20.83	63.85	1260.18
Information Technology	1329.21	+1.9	1304.27	1298.26	-	0.71	0.57	4.19	42.26	6.95	1335.80
FTSE Fledgling	1141.45	+0.1	1140.16	1141.65	1237.91	3.85	3.16	1.45	22.43	32.51	1282.11
FTSE Fledgling ex Inv Tr	1141.78	+0.1	1140.83	1141.08	1256.99	4.22	3.47	1.65	19.17	36.22	1289.21
FTSE AIM	816.3	−0.2	817.9	820.1	967.7	1.16	0.92	0.53	60.00†	9.49	758.53

■ Hourly movements

	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	5755.8	5780.7	5809.1	5819.5	5823.3	5822.1	5821.5	5831.8	5854.5	5744.1
FTSE 250	4927.7	4927.4	4929.4	4931.2	4931.9	4930.4	4934.9	4936.6	4941.2	4925.8
FTSE 350	2728.7	2738.5	2750.0	2754.3	2758.2	2755.2	2755.4	2758.6	2768.5	2724.1
FTSE SmallCap	2063.09	2063.92	2066.82	2067.30	2067.29	2067.34	2067.58	2067.85	2068.35	2062.05
FTSE All-Share	2633.25	2642.37	2653.06	2657.02	2660.84	2657.90	2658.06	2661.98	2670.16	2629.00

Time of FTSE 100 Day's high: 16:26:30 Day's low: 9:19:15. FTSE 100 1998 High: 6179.0 (20/07/98) Low: 4648.7 (05/10/98)
Time of FTSE All-Share Day's high: 16:28:00 Day's low: 9:20:00. FTSE All-Share 1998 High: 2885.20 (20/07/98) Low: 2166.19 (05/10/98)

Further information is available on http://www.ftse.com.
 † Sector P/E ratios greater than 80 are not shown. ‡ Values are negative.
Deletion: Robert Walters (FTSE SmallCap).

FTSE INTERNATIONAL

TRADING VOLUME

■ Major Stocks yesterday.

	Vol 000's	Closing price	Day's change
[illegible]	[illegible]	[illegible]	[illegible]

Based on trading volume for the FTSE 100 constituent companies [illegible]

صكذا من الاحل

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Nov 26 / Sch)

BELGIUM/LUXEMBOURG (Nov 26 / Frs.)

CZECH REP (Nov 26 / Korunas)

DENMARK (Nov 26 / Kr)

FINLAND (Nov 26 / Mka)

FRANCE (Nov 26 / Frs.)

GERMANY (Nov 26 / Dm.)

GREECE (Nov 26 / Drachma)

IRELAND (Nov 26 / Punt)

ITALY (Nov 26 / Lire)

NETHERLANDS (Nov 26 / Fls.)

NORWAY (Nov 26 / Kroner)

POLAND (Nov 26 / Zloty)

PORTUGAL (Nov 26 / Escudo)

SPAIN (Nov 26 / Pts.)

SWEDEN (Nov 26 / Kronor)

SWITZERLAND (Nov 26 / Frs.)

TURKEY (Nov 26 / Tk Lira)

PACIFIC

JAPAN (Nov 26 / Yen)

HONG KONG (Nov 26 / H.K.$)

INDONESIA (Nov 26 / Rupiah)

MALAYSIA (Nov 26 / MYR)

NEW ZEALAND (Nov 26 / NZ $)

SINGAPORE (Nov 26 / S$)

AUSTRALIA (Nov 26 / Aust$)

SOUTH KOREA (Nov 26 / Won)

TAIWAN (Nov 26 / TW $)

THAILAND (Nov 26 / Baht)

AMERICAS

CANADA

TORONTO (Nov 26 / Can $) 4 pm close

MONTREAL (Nov 26 / Can $) 4 pm close

MEXICO (Nov 26 / Peso) 12.30 pm

AFRICA

SOUTH AFRICA (Nov 26 / Rand)

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	WEDNESDAY NOVEMBER 25 1998 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	TUESDAY NOVEMBER 24 1998 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (75)	203.31	-0.8	181.37	156.70	180.19	211.28	-0.3	3.54	204.87	182.82	156.24	181.55	212.00	219.96	163.86	196.09
Austria (22)	180.93	-0.1	161.40	139.45	160.35	160.23	-0.1	2.78	181.10	161.61	138.11	160.48	160.37	253.73	166.45	188.07
Belgium (22)	372.15	-0.1	331.98	286.83	329.82	322.78	0.0	2.09	372.39	332.30	284.03	329.29	322.99	398.52	249.06	249.82
Brazil (32)	171.84	3.0	153.29	132.44	152.29	379.09	3.1	2.35	165.90	148.93	127.23	147.90	367.82	269.34	102.68	214.30
Canada (119)	198.06	-0.6	176.68	152.65	175.53	222.05	-0.6	1.78	199.31	177.86	152.02	176.62	223.48	248.78	159.94	210.88
Denmark (34)	452.14	-0.6	403.34	348.48	400.71	398.62	-0.6	1.75	454.82	405.86	346.85	403.03	400.88	537.33	415.82	418.75
Finland (23)	476.69	-2.0	425.24	367.40	422.47	518.55	-2.0	1.76	486.66	434.28	371.15	431.25	529.36	506.46	267.59	303.08
France (75)	313.15	0.4	279.35	241.36	277.53	280.76	0.4	2.23	311.95	278.29	237.64	276.35	279.61	345.18	225.24	228.22
Germany (58)	270.75	-0.5	241.53	208.69	239.95	239.95	-0.4	1.35	271.96	242.69	207.41	241.00	241.00	325.61	216.42	216.42
Greece (35)	305.24	-0.8	272.30	235.26	270.52	625.84	-0.8	1.39	307.59	274.48	234.55	272.57	630.54	333.20	211.47	–
Hong Kong, China (67)	331.24	-1.3	295.49	255.30	293.56	329.27	-1.4	3.97	335.70	299.57	256.02	297.48	333.76	389.07	196.64	349.49
Indonesia (26)	47.61	-8.6	42.65	36.84	42.37	220.68	-10.3	1.44	52.42	46.78	39.98	46.45	246.01	97.29	19.04	95.41
Ireland (16)	500.13	-0.7	446.15	385.47	443.24	483.15	-0.7	2.00	503.47	449.28	383.97	446.15	486.37	560.44	377.28	377.28
Italy (58)	163.38	1.4	145.74	125.92	144.79	205.90	1.4	1.35	161.06	143.73	122.53	142.73	202.99	184.49	108.62	108.70
Japan (446)	99.35	-1.3	88.62	76.57	88.05	76.57	-0.2	0.98	100.64	89.81	76.75	89.18	76.75	109.73	76.83	98.53
Mexico (28)	1154.86	-0.5	1030.21	890.09	1023.49	12540.11	-0.4	2.04	1161.14	1035.16	885.53	1028.30	12593.05	1803.07	787.15	1588.84
Netherlands (21)	489.51	-0.1	436.68	377.28	433.83	429.39	-0.1	2.17	490.26	437.49	373.89	434.44	430.05	562.38	391.03	403.43
New Zealand (15)	57.54	-1.3	51.33	44.35	51.00	57.48	-0.9	5.08	58.29	52.02	44.45	51.65	57.99	83.04	45.68	79.83
Norway (35)	229.19	-1.2	203.56	175.87	202.23	232.85	-0.8	2.58	231.07	206.20	176.23	204.77	234.74	357.71	181.86	323.65
Philippines (27)	87.68	0.4	78.22	67.58	77.71	172.16	0.0	0.90	87.34	77.94	66.61	77.40	172.15	106.98	42.48	85.01
Portugal (18)	246.79	0.4	220.15	190.21	218.72	295.24	0.3	1.13	245.79	219.33	187.45	217.50	294.31	299.39	194.13	–
Singapore (41)	213.27	-1.4	190.25	164.37	189.01	181.17	-1.2	1.96	216.35	193.07	165.00	191.72	183.18	264.82	102.45	240.54
South Africa (39)	209.75	-1.1	186.76	161.35	185.54	259.88	-1.1	3.61	211.71	183.93	161.46	187.61	262.73	346.20	151.55	274.13
Spain (30)	370.00	0.3	335.42	289.79	333.23	413.03	0.4	1.92	374.73	334.40	285.79	332.07	411.57	417.73	260.41	260.41
Sweden (46)	403.36	0.1	440.11	380.25	437.24	599.66	1.9	1.95	492.87	439.82	375.89	436.76	588.67	629.19	379.18	481.95
Switzerland (40)	393.02	-1.6	355.97	307.55	353.64	348.49	-1.4	1.22	405.35	361.72	309.14	359.25	353.51	439.48	307.73	321.39
Thailand (35)	25.13	-4.2	22.42	19.37	22.27	35.23	-4.5	2.69	26.22	23.40	20.00	23.24	36.88	33.84	8.15	25.47
United Kingdom (205)	370.95	-0.6	330.91	285.90	328.75	330.91	-0.7	2.97	373.30	333.12	284.79	330.80	333.12	401.84	307.96	321.68
USA (620)	486.48	0.3	433.98	374.95	431.15	486.48	0.3	1.33	484.77	432.59	369.71	423.53	484.77	486.79	378.74	387.09
Americas (800)	433.16	0.3	386.41	333.85	383.89	367.45	0.3	1.36	431.73	385.25	329.26	382.58	366.24	427.02	343.40	351.27
Europe (737)	344.65	-0.3	307.46	265.64	305.45	316.12	-0.2	2.13	345.79	308.57	263.71	306.42	316.92	386.24	278.58	278.58
Eurobloc (248)	99.33	0.1	88.61	76.56	88.03	95.28	0.1	1.80	99.23	88.55	75.66	87.93	95.16	113.28	81.53	–
Nordic (146)	455.19	-0.6	406.06	350.83	403.41	465.97	0.4	1.92	457.90	408.62	349.22	405.77	464.15	556.97	360.04	419.96
Pacific Basin (737)	107.94	-1.3	96.29	83.20	95.66	85.20	-0.4	1.53	109.33	97.56	83.35	96.83	85.54	119.42	82.82	108.82
Euro-Pacific (1467)	206.29	-0.6	184.02	158.99	182.82	171.76	-0.3	1.95	207.55	185.21	158.29	183.92	172.28	220.19	166.00	179.63
North America (739)	467.02	0.3	416.61	359.94	413.89	468.30	0.2	1.25	465.54	415.43	355.04	412.53	466.92	469.20	367.39	375.86
Europe Ex. UK (532)	320.15	-0.2	265.62	248.77	283.76	299.35	-0.1	1.72	320.75	286.22	244.61	284.23	299.51	366.32	249.34	249.34
Europe Ex. Eurobloc (391)	94.47	-0.8	84.28	72.81	83.73	93.93	-0.6	2.48	95.21	84.96	72.57	84.37	94.52	103.93	77.40	–
Europe Ex. UK Ex. Eurobloc (183)	94.43	-1.1	84.24	72.78	83.69	92.25	-0.6	1.48	95.45	85.13	72.79	84.59	92.77	109.21	75.16	–
Pacific Ex. Japan (284)	188.82	-1.2	168.44	145.53	167.34	190.93	-1.0	3.58	191.13	170.56	145.77	159.37	192.94	217.77	128.26	201.72
World Ex. Eurobloc (1960)	101.72	-0.1	90.74	78.40	90.15	100.87	0.0	1.60	101.85	90.93	77.68	90.36	100.84	103.16	83.09	–
World Ex. US (1650)	206.24	-0.6	183.98	158.95	182.78	176.91	-0.3	1.96	207.45	155.12	158.21	183.83	177.44	221.31	165.95	183.36
World Ex. UK (2098)	288.47	0.0	258.23	223.11	256.54	260.01	0.1	1.48	289.56	258.39	220.33	256.59	259.68	298.02	234.66	242.06
World Ex. Japan (1860)	334.66	0.1	352.07	304.18	349.77	364.79	0.1	1.71	394.47	352.01	302.94	343.56	384.49	411.23	318.78	324.20
The World Index (2307)	296.48	-0.1	264.48	228.51	262.75	266.58	0.1	1.63	296.75	264.51	226.32	262.97	266.46	306.56	242.02	248.83

Emerging markets: IFC investable indices

Dollar terms

Nov 25 Market		Day's chg %	% Chg since 31/12/97
Latin America			
Argentina	925.04	+0.7	-17.1
Brazil	348.05	+2.9	-27.9
Chile	497.29	-0.3	-22.6
Colombia[1]	447.63	+7.0	-45.8
Mexico	490.10	-0.6	-37.8
Peru[2]	154.03	-0.5	-30.4
Venezuela[3]	349.22	-1.1	-61.8
East Asia			
China[4]	30.53	-1.8	-44.8
India[5]	50.94	-0.7	-26.9
Indonesia[6]	24.73	-7.3	-26.5
Korea[7]	39.11	+1.5	+62.8
Malaysia	80.32	+2.7	-11.9
Pakistan[8]	101.46	-0.2	-59.1
Philippines	122.63	-0.0	+8.8
Sri Lanka[9]	78.74	+3.8	-32.3
Taiwan, China[1]	123.17	-2.5	-9.1
Thailand	70.73	+1.2	+50.4
Europe			
Czech Rep	47.84	-1.4	-12.6
Greece	549.94	-0.8	+69.8
Hungary[10]	266.16	-0.2	-15.7
Poland[12]	523.96	-2.4	-12.2
Portugal	280.59		+32.9
Russia	27.94	-3.5	-81.2
Slovakia	39.02	+0.2	-60.6
Turkey[14]	145.66	-4.1	-53.3
Mideast/Africa			
Egypt	64.09	-1.0	-31.3
Israel	101.73	+0.4	-16.4
Jordan	210.55	+0.1	+0.1
Morocco	169.05	+0.2	+29.8
S Africa[13]	138.88	-1.4	-22.7
Zimbabwe[15]	98.00	+0.2	-61.1
Regions			
Composite	193.18	-0.1	-21.5
Latin America	472.22	+1.0	-30.3
Asia	102.64	-1.1	-4.7
EMEA	115.32	-0.5	-21.9
Europe	142.57	-0.1	-24.4
Eastn Europe	58.38	-1.7	-58.4
ME & Africa	57.64	-1.0	-19.4
Comp + Malay	194.37		-21.0
Asia + Malay	102.50	-0.4	-4.9

Base date Dec 1988=100 except those noted which are: (1)Feb 7 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1993; (6)Jan 4 1991; (7)Mar 6 1992; (8)Sep 28 1990; (9)Mar 7 1997; (10) Dec 31 1992; (11)Dec 31 1993; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1992; (15)Aug 2 1993; (16) July 2 1993.

Latest indices were unavailable for this edition.

Prices supplied by Reuters, part of FT Extel.

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NEW YORK STOCK EXCHANGE PRICES

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.

d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full. ¶ Dealings suspended.

GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Nov 25	Nov 24	Nov 23	1998 High	1998 Low	Since compilation High	Since compilation Low
Industrials	9314.28	9301.15	9374.27	9374.27 (23/11)	7539.07 (31/8)	9374.27 (23/11/98)	41.22 (8/7/32)
Home Bonds	105.56	105.49	105.33	107.02 (5/10)	104.42 (11/5)	107.02 (5/10/98)	54.99 (1/10/81)
Transport	3058.51	3078.72	3013.95	3686.02 (16/4)	2345.00 (8/10)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	310.50	311.07	312.03	320.51 (8/10)	282.86 (9/1)	320.51 (8/10/98)	10.53 (8/7/32)

DJ Ind. Day's high 9387.58 (9457.86) Low 9199.20 (9219.36) (Theoretical¶) Day's high 9318.15 (9380.20) Low 9252.49 (9280.09) (Actual¶)

Standard and Poors	Nov 25	Nov 24	Nov 23	1998 High	1998 Low	Since compilation High	Since compilation Low
Composite‡	1186.87	1182.99	1188.21	1188.21 (23/11)	927.69 (9/1)	1188.21 (23/11/98)	4.40 (1/6/32)
Industrials¥	1412.42	1407.65	1414.79	1414.79 (23/11)	1077.40 (9/1)	1414.79 (23/11/98)	3.52 (30/6/32)
Financial¥	131.88	131.38	131.73	147.89 (14/7)	95.80 (8/10)	147.89 (14/7/98)	7.19 (4/8/74)
Others							
NYSE Comp.	581.04	579.69	582.25	600.75 (17/7)	477.20 (8/10)	600.75 (17/7/98)	4.64 (25/4/42)
Amex Comp	669.34	666.83	672.00	763.67 (22/4)	563.75 (8/10)	763.67 (22/4/98)	524.20 (18/7/98)
NASDAQ Cmp	1985.21	1985.88	1977.42	2014.25 (20/7)	1419.12 (8/10)	2014.25 (20/7/98)	54.87 (3/10/74)
Russell 2000	399.32	396.60	398.15	491.41 (21/4)	310.28 (8/10)	491.41 (21/4/98)	123.36 (7/12/95)

RATIOS

	Nov 20	Nov 13	Nov 6	Year ago
Dow Jones Ind. Div. Yield	1.66	1.69	1.68	1.73
	Nov 18	Nov 11	Nov 4	Year ago
S & P Ind. Div. yield	1.26	1.29	1.30	1.60
S & P Ind. P/E ratio	33.53	32.98	32.70	25.38

US DATA

MARKET ACTIVITY

Volume (million)	Nov 25	Nov 24	Nov 23
NYSE	583.580	766.280	774.190
Amex	18.936	27.428	28.489
NASDAQ	821.653	1,002.986	955.771

NYSE	Nov 25	Nov 24	Nov 23
Issues Traded	3,536	3,574	3,567
Rises	1,683	1,430	1,851
Falls	1,415	1,645	1,226
Unchanged	530	499	490
New Highs	769	185	126
New Lows	25	33	31

NYSE TRADING ACTIVITY

Volume : 583,580,000

ACTIVE STOCKS Wednesday	Stocks traded	Close price	Day's change
AmOnLine	12,198,700	92¾	+⅞
Cendnt	10,758,000	15⅝	+1¼
AdvMic	8,536,000	28¼	+3⅞
Citgrp	8,252,200	52¼	+1⅝
PhMorr	7,398,000	53⅝	+¼
Compaq	6,984,300	34¼	−⅛
NonsMot	6,206,700	29½	+4¾
Amoco	4,710,800	58	−⅛
JosnJ	4,498,900	82¼	−2¾
Disney	4,331,000	30⅝	+1⅞

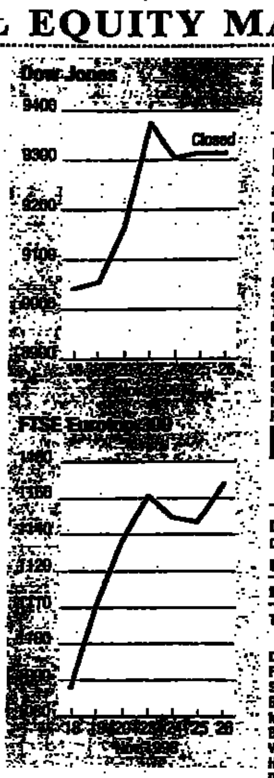
BIGGEST MOVERS Wednesday	Close price	Day's change	Day's chge %
Ups			
NmbMot	29½	+4¾	+17.4
AdvMic	28¼	+3⅞	+14.5
Handleman	13¼	+1½	+12.8
ChmyGif	13⅜	+1¼	+10.4
Downs			
First Fal	11⅞	−3¼	−21.8
MCGlobal	23¼	−2¼	−8.8
Park Eldt	18⅞	−1⅝	−8.0
Marshall	28¼	−1⅞	−6.6

NASDAQ TRADING ACTIVITY

Volume :821,653,600

ACTIVE STOCKS Wednesday	Stocks traded	Close price	Day's change
Egghead	19,812,800	21¼	+3¼
Novell	19,224,200	18⅜	+¼
Intel	14,713,800	109¾	−⅞
WrldCm	11,328,300	60¾	+2⅞
Micsft	10,338,500	124¾	+2⅛
ApplMat	8,851,300	40⅞	−1⅝
DellCmp	9,481,600	64½	−¾
SunMic	9,040,900	75¾	+2⅞
Yahoo	7,073,100	206⅝	−¼
Netscp	6,546,500	39⅛	−⅛

BIGGEST MOVERS Wednesday	Close price	Day's change	Day's chge %
Ups			
VacantGrp	14⅝	+3⅜	+30.7
Spyglass	24⅝	+5¾	+30.3
TMP Wrldw	30½	+6½	+27.1
Brdwsn	27¼	+4⅝	+20.4
Downs			
Stw&Sty	11¼	−1½	−11.8
FrstlyGrf	20⅝	−2⅜	−10.4
NatnMicro	10⅛	−1	−8.7
CNET	54	−4⅛	−7.1



JAPAN

GERMANY

FRANCE

UK

INDEX FUTURES

S&P 500	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	1187.60	1186.10	–	1190.80	1182.40	97,959	399,021
Mar	1198.00	1197.80	–	1201.50	1193.50	5,401	26,129
Nikkei 225	**Open**	**Sett price**	**Change**	**High**	**Low**	**Est. vol.**	**Open int.**
Dec	15000.0	15070.0	−80.0	15130.0	14930.0	25,203	198,578
Mar	14980.0	14970.0	−150.0	15050.0	14900.0	885	9,755

CAC-40 (200 x Index)	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Nov	3875.0	3918.0	+75.0	3921.5	3867.0	72,202	133,875
Dec	3885.0	3927.0	+75.0	3934.0	3878.0	38,749	105,094
DAX							
Dec	5000.0	5083.0	+107.0	5085.0	5000.0	10,645	79,244
Mar	5075.0	5124.0	+84.0	5110.0	5059.0	249	5,236

OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Nov	702.00	704.25	+10.00	712.00	698.00	43,060	85,734
Dec	703.00	709.00	+11.75	714.00	701.00	35,507	193,475
SOFFEX							
Dec	7084.0	7175.0	+124.0	7189.0	7080.0	18,840	182,585
Mar	7181.0	7203.0	+108.0	7195.0	7142.0	266	5,588

Open interest figures for previous day.

WORLD MARKETS AT A GLANCE

Country	Index	Nov 26	Nov 25	Nov 24	1998 High	1998 Low	Yield	P/E
Argentina	General	19815.90	19703.52	19581.19	23485.47 23/3	12303.14 1/9	3.34	12.30
Australia	All Ordinaries	2772.0	2749.4	2760.2	2861.40 18/4	2469.29 1/9	3.39	21.20
	All Mining	612.8	612.5	625.7	713.19 23/4	498.80 31/8		

ANZ jumped 4.7 per cent after a newspaper report suggested a takeover bid from country's biggest bank NAB was imminent.

Country	Index	Nov 26	Nov 25	Nov 24	1998 High	1998 Low	Yield	P/E
Hungary	Bux	6046.52	6043.80	6042.04	8818.36 23/4	3775.62 21/9	na	na

Local investors were nervous about prospect of fall in New York at end of year.

Country	Index	Nov 26	Nov 25	Nov 24	1998 High	1998 Low	Yield	P/E
India	BSE Sens.	2825.08	2881.69	2903.56	4280.96 21/4	2764.16 20/10		
	Crisil 500	64	585.56	576.82	835.82 21/4	557.68 20/10	na	na

Overseas funds indulged in late selling on worries about the political situation.

Country	Index	Nov 26	Nov 25	Nov 24	1998 High	1998 Low	Yield	P/E
Portugal	BVL 30	4855.26	4742.04	4738.43	6176.69 22/4	3599.86 2/10	2.12	26.30
	PSI 20	11145.73	10869.75	10859.67	14282.99 22/4	8114.51 2/10		

Stocks tracked other European markets, with utility EDP and Portugal Telecom making gains.

Country	Index	Nov 26	Nov 25	Nov 24	1998 High	1998 Low	Yield	P/E
Russia	RTS	72.02	69.14	70.85	411.81 5/1	38.53 5/10	na	na

THE NASDAQ-AMEX MARKET GROUP

AMEX

EASDAQ

STOCK MARKETS

Oils fan bourse flames in absence of Dow

WORLD OVERVIEW

Asia mostly ticked over but there was no shortage of excitement in European markets yesterday in what is traditionally a sleepy session, *writes Jeffrey Brown.*

With Wall Street shut for a holiday, trading volume in Europe is normally on the low side, but with the corporate rumour mill moving *into overdrive traders were* kept more than ordinarily busy from the opening bell.

Oil shares shot higher following a front-page story in the Financial Times that Exxon, the world's biggest energy group, was teeing up the takeover of US rival Mobil. There was also huge

Wall Street was closed for the Thanksgiving holiday

activity among motor stocks after a bounce for Fiat *sparked some wild stories.*

In the event, Milan and Frankfurt were the day's winners, rising well in excess of 2 per cent. In each case, motors were a visible driving force, thanks partly to the dollar, which stayed above DM1.70 to the D-Mark, against its level of DM1.50 barely eight weeks ago.

In Italy, talk of Fiat "coming into play" caught investors' imaginations and the shares extended their rally to 13.7 per cent in two days *in volume running at twice* the recent daily average. Most brokers doubted that restructuring at the Agnelli family holding companies would lead to immediate corporate activity at Fiat but suggested that, longer-term, there was no end of scope for changes.

"As always with Fiat there is no smoke without fire," said Nicholas Potter at Société Générale.

The strong suggestions of an imminent deal between *Exxon and Mobil allowed oil* stocks to shrug off the latest bout of weakness for international oil prices, which saw Brent blend down to 12-year lows yesterday at well below $11 to the barrel. The French leaders Total and Elf Aquitaine rose by around 5 per cent.

Clearly, an Exxon deal coming shortly after BP's link-up with Amoco will intensify the cost and price pressures building up within the industry.

But not all brokers see such industry consolidation as plain sailing. For example, Elf's name has been recently linked with Petrofina, the Belgian oil leader, which is capitalised at $9bn against $32bn for Elf.

Robert Fleming Securities takes a dim view of some stock market interpretations of the story.

There is a reasonable fit in exploration and production, but on all other counts a takeover of Petrofina by Elf *would not stack up, says* Fleming oils analyst Alan Marshall.

Toronto financials provide direction

AMERICAS

Toronto saw strength in the heavily weighted banking sector in an *otherwise thin* and aimless session with Wall Street closed.

By midsession, the 300 composite index was 3.30 higher at 6,530.10 in volume of just 14m shares.

In morning trade, 11 of the market's 14 sub-indices were higher, with financial services leading the way.

Among individual stocks, Bid.Com International, the internet group, put on 31 cents to C$3.12, continuing the recent trend of heavy activity in all the North American internet issues.

Newbridge Networks jumped 8 per cent amid rumours that Siemens of Germany may be considering a takeover of the Canadian telecommunications and networking company. By midsession, however, the shares had settled to trade 45 cents higher at C$45.75 after Siemens denied there was any truth in the stories.

Caracas soars on poll hopes

Indications that the presidential candidates from Venezuela's two traditional parties might withdraw from the race, boosting Henrique Salas's bid against radical front-runner Hugo Chavez, sent CARACAS sharply higher in early trade.

By midsession, however, the IBC index had pulled back from its morning peak of 3,944.50, but was still 140.91 or 3.8 per cent higher at 3,866.18.

SAO PAULO moved ahead at midsession, but in quiet trade, lacking a lead from the US. The Bovespa index was 28 or 0.31 per cent higher at 8,938.

Merger talks fuel Frankfurt climb

EUROPE

The news that Exxon, the world's largest energy group, was in talks to take over Mobil helped to fuel an already positive market in FRANKFURT and the Xetra Dax index jumped 111.46 or 2.3 per cent to 5,067.99.

The strong dollar provided *a fillip to car stocks.* BMW rose DM62.30 to DM1,290.50, VW DM4.40 to DM140.50, and DaimlerChrysler DM6.70 to DM159.70.

By contrast, components manufacturer Sachsenring tumbled DM2.50 to DM36.30 after nine-month earnings growth failed to match last year's performance.

Motor parts group WET Automotive Systems lost

The FTSE Eurotop 300 index rose 21.75 or 1.90 per cent to 1,168.62. See Euro Prices page.

DM4.10 to DM96.50 after the company reported a pre-tax loss in the first quarter of its current financial year.

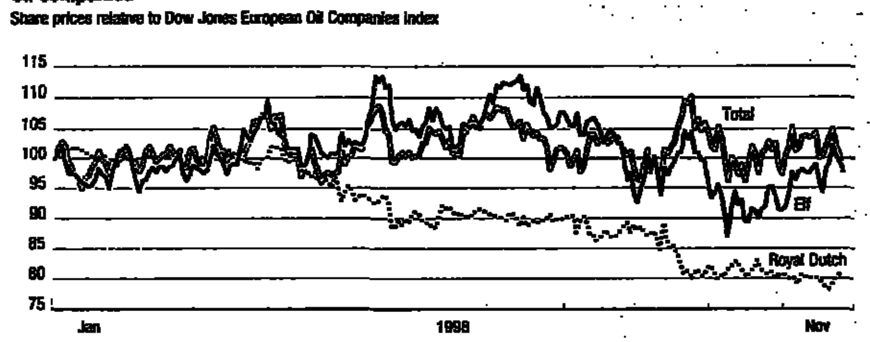
And ball-bearing maker Kugelfisher slipped 84 pfg to DM15.12 as the company forecast a fall of about 30 per cent in net profit this year.

Many of the drugs and chemicals groups failed to benefit from the stronger dollar as profit-taking set in.

However, Schering, which jumped DM5 on Wednesday's news that the company was involved in the Hoechst/Rhône-Poulenc tie-up talks, put on another DM4.60 to DM212.60 as Swedish drugs group Astra declined to comment on rumours that the German company was interested in buying it.

Banks mostly extended Wednesday's rebound with HypoVereinsbank DM6.95 higher at DM147.90 and Commerzbank up DM1.01 to DM55.65. Insurer Allianz rose DM14.90 to DM608.40 after the company said it expected a double-figure profit rise in 1998.

Oil companies
Share prices relative to Dow Jones European Oil Companies index



Source: Datastream/ICV

PARIS ended just short of the day's highs, with the CAC-40 index up 65.69 at 3,915.53 following strong gains for oils and among motor stocks.

Oils surged on hopes for a further rapid round of consolidation in the sector. Total and Elf Aquitaine jumped FFr36 to FFr690 and FFr33 to FFr734. Esso, part of Exxon, surged FFr84.90 or 21 per cent to FFr490.

Turnover in Renault topped FFr1.6bn as the stock put on FFr17.90 or 7.8 per cent at FFr247.90. Michelin rose FFr10.60 to FFr239.

Some recent laggards made up for lost time, notably Schneider, where the shares rose FFr19.10 to FFr370.20, and Thomson-CSF, up FFr15 at FFr227. Alcatel jumped FFr45 to FFr735 on a story, later denied, that it was in merger talks with GEC of the UK.

Remy Cointreau continued to power higher, adding FFr3.30 to FFr98.10 for a two-day gain of 15.5 per cent on talk that the group is teeing up the sale of its Krug champagne operations.

France Telecom was an odd man out, slipping FFr8 to FFr412 ahead of the weekend, when the next tranche of state-owned shares is due to be priced.

AMSTERDAM rose 19.94 to 1,134.69 on the AEX index thanks largely to a powerful run for the financials following top-of-the-range results from banking and insurance giant ING. Fortis Amev rose Fl 4 to Fl 137.80 and Aegon Fl 5.70 at Fl 204.50. ING, which notched up solid third-quarter results in spite of weak returns from banking, rose Fl 3.60 or 3.2 per cent to Fl 116.30.

Royal Dutch shared in the general enthusiasm for oil stocks, rising Fl 1.90 to Fl 93.90, and was buoyed as well by the strength of the dollar. The US currency also got behind Akzo Nobel, up Fl 3.50 at Fl 83.

Foods group CSM jumped Fl 6.60 or 7.1 per cent to FL 99 on better-than-expected results and news of plans for a capital realignment. Retailer Ahold improved 30 cents to Fl 67.10 in spite of a downgrade by Merrill Lynch.

ZURICH received a boost from the stronger dollar and some takeover speculation, the SMI index putting on 105.3 to 7,161.1.

Nestlé, however, remained on its downward path with a fall of SFr76 to SFr2,864 in further response to Wednesday's news that 1998 net profit would rise more slowly than sales.

Algroup jumped SFr47 to SFr1,800 on further speculation that it would soon announce a merger with Germany's Viag.

Telecommunications group Swisscom was SFr8 lower at SFr469 after nine-month sales figures proved in line with expectations.

MILAN pushed forward as expectations grew for an interest rate cut. The Mibtel index closed 585 or 2.6 per cent higher at 22,744.

Christian Oddono at Actinvest Group said the market had been encouraged by inflation statistics released on Wednesday. "The market is going up on the expectation that the Bank of Italy will cut interest rates," he said. "But we think the interest rate is probably discounted already. It's maybe just an excuse to buy some more because *liquidity is very high.*"

Fiat put in a powerful performance for the second day running. The carmaker, which gained 5.9 per cent on Wednesday, rose L402 or 7.8 per cent to L5,580 on news the Agnelli family planned to simplify the ownership structure of the company.

Alitalia continued its recent strong run as investors looked forward to today's announcement of details of an agreement with KLM, the Dutch airline. Alitalia climbed L225 or 3.9 per cent to L5,980, taking its rise to just under 10 per cent since November 10.

HELSINKI extended its recent run of powerful performances as Nokia prospered on good news about its order book. The Hex general index surged 153.14 or 3.2 per cent to 4,915.94.

The exchange has gained 11.8 per cent since November 13. Nokia finished FM10.40 or 2.1 per cent higher at FM508.50.

Written and edited by Michael Morgan, Jeffrey Brown, Michael Peel and Paul Gregan

Golds breathe life into Jo'burg

SOUTH AFRICA

Johannesburg closed a quiet and directionless session mixed, subdued by the absence of Wall Street and with many investors distracted by South Africa's first cricket Test against the touring West Indies team.

The overall index ticked up 4.2 to 5,706.3 as golds edged 4.1 higher to 1,041.5 and industrials slipped 4.8 to 6,431.7.

Analysts said that the market was likely to remain quiet today ahead of next week's bourse debut for life assurer Sanlam.

Against the listless trend, information technology group Faritec made a strong debut, ending R3.50 up from its private placing price of R1, with more than 2m shares changing hands.

Foreign buyers support Tokyo

ASIA PACIFIC

Japanese shares rallied modestly, lifted by foreign buying as investor perception of the support programme for the banks and the huge government spending plan turned more positive, *writes Julia Hess.*

However, opinion is divided on whether the proposed income and corporate tax cuts are sufficient or whether a sales tax reduction is necessary for a recovery in private consumption.

While the ruling Liberal Democratic party is still opposed to a sales tax cut, its coalition partners in the Liberal party support such a move.

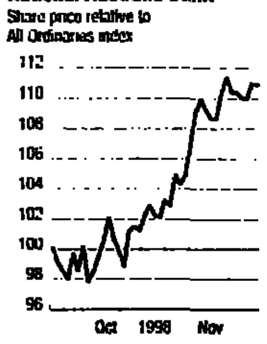
The fear of missing a potential rally is another reason for the foreign interest in the Japanese market. With the US reaching new highs and investors underweight in Japan, the market is drawing the attention of those looking for new investment opportunities.

The benchmark Nikkei 225 index rose 134.3 or 0.89 per cent to 15,207.77 after fluctuating between 15,043.72 and 15,219.81. The increase was broadly based, with the weighted Nikkei 300 index up 2.3 or 0.99 per cent at 233.73. The Topix index of all first-section shares gained 10.91 or 0.95 per cent to close at 1,164.59.

Turnover was an estimated 499m shares, with gaining issues exceeding losers by 826 to 372, while 105 shares remained unchanged.

Hitachi and Mitsubishi Electric announced half-year consolidated results after the market closed but the prices

National Australia Bank
Share price relative to All Ordinaries index



Source: Datastream/ICV

already reflected the bad news. Hitachi recorded a consolidated net loss of Y142.2bn and forecast an operating loss of Y20bn for the full term despite a planned Y100bn cut in capital investment. The shares fell 0.52 per cent to Y760.

Mitsubishi Electric's consolidated net loss for the six months amounted to Y31.8bn but the company expected a net profit of Y20bn for the fiscal year 1998. The shares fell 1.2 per cent to Y329.

In Osaka, the OSE index rose 13 points to 15,591.

SEOUL fell sharply on arbitrage sales as foreign investors stayed on the sidelines ahead of the US Thanksgiving holiday. The composite index, up 15.8 per cent in the previous two weeks, closed 17.42 or 3.8 per cent lower at 446.59.

Four banks were among the 20 most heavily traded stocks. Cho Hung Bank shed 4.3 per cent, Kookmin Bank retreated 5.3 per cent and Daegu Bank lost 6.9 per cent.

Pohang Iron and Steel fell Won1,400 or 2.5 per cent to Won54,100 after it said it was aiming for 1999 sales of Won10,080bn compared with a projected Won11,080bn for this year.

SYDNEY moved lower in spite of a shakeout at BHP, where the shares fell 26 cents to A$12.82 following a profits warning.

Banks stayed upbeat on the back of takeover rumours. ANZ was the main focus of the bid talk, adding 49 cents at A$11. Westpac gained 16 cents to A$10.76 and Commonwealth rose 20 cents to A$21.69. The All Ordinaries index ended 22.6 higher at 2,772.

KARACHI jumped 3.1 per cent on funding hopes sparked after the country agreed an economic policy programme with the International Monetary Fund.

The KSE 100 index closed 31.10 higher at 1,044.85 as gainers outscored losers 69 to 36. Hubco rose Rs0.25 to Rs15.15, Pakistan State Oil Rs1.35 to Rs81.25 and Fauji Fertiliser put on Rs2.35 to Rs52.35.

Finance minister Ishaq Dar announced on Wednesday that the package, which could total $5.5bn, included $1.3bn in cash inflows from the IMF, World Bank and Asian Development Bank between now and June, $3.5bn of debt rescheduling and restructuring and $400m from bilateral resources.

The minister also expressed the government's willingness to resolve its dispute with independent power producers, the main source of investor disillusionment with Pakistan.

WELLINGTON lost ground after further weakness at NZ Telecom, which gave up 20 cents to NZ$7.81 on regulatory worries. The shares have now given up almost 8 per cent in eight trading sessions. The 40 capital index ended down 19.40 at 1,962.35.

BANGKOK fell back in high turnover of Bt9.3bn, unwinding all and more of the previous day's gains. Brokers said that trade had been dominated by local investors.

Thai Airways tumbled Bt4.50 to Bt50.50 ahead of annual results due to be announced after the markets closed. The SET index shed 8.81 or 2.3 per cent at 382.20.

HONG KONG drifted to a firmer close after a bumpy ride that lacked clear direction as investors digested recent gains with little news to trade on.

The Hang Seng index added 57.93 to 10,778.92 but turnover shrank to HK$5.9bn as investors stepped to the sidelines after the market's recent run and with Wall Street closed for the Thanksgiving holiday.

Brokers said the market looked expensive at current levels but expected derivatives-linked trading to hold up the market ahead of Friday's index futures expiry.

Index heavyweight HSBC firmed HK$5 to HK$204 but property counters were weighed down by profit-taking. Sun Hung Kai Properties retreated 25 cents to HK$58.25 and Cheung Kong ended 50 cents lower at HK$58.50.

China plays underperformed with the China-Affiliated Corporations index falling 2.9 per cent and H shares slid 2.7 per cent.

EMERGING MARKET FOCUS

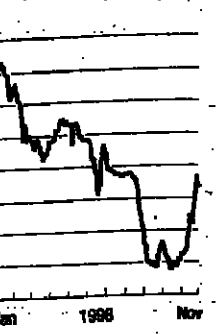
Bogotá rally lacks conviction

Colombian brokers are still trying to fathom why the local stock market has rebounded so sharply this month, compensating to a small degree for a dismal year for equities.

Since the beginning of November, the Bogotá market index (IBB) has gained 28.8 per cent in dollar terms, or 24.9 per cent in terms of the local currency.

Until the end of October, prices were down about 55 per cent compared with the beginning of the year. Total market capitalisation had slumped to $11.2bn. Even with the recent upturn, shares are still down 40 per cent on the year.

Colombia
IBB index



Source: Datastream/ICV

The recovery is driven by expectations that the government will intervene to lower interest rates, which have risen 11.9 percentage points since January. This week, Juan Camilo Restrepo, the *finance minister, said* the prime concern was to lower the rates and tackle record levels of unemployment. Intervention would be the first in three years.

But if the expectation has led to an impressive rally on the country's three stock markets, brokers insist that the degree of recovery owes more to speculation than to sound reasoning.

"We are seeing a rise in prices, but volumes are still very low," said Paul Weiss, head of equities at the local firm Corredores Asociados. "If this were the start of a real recovery, we would be seeing daily volumes of at least $2m-$3m rather than less than $1m that has characterised the recovery."

Ironically, the surge has happened in the wake of an economic emergency, a constitutional mechanism that empowers the government to adopt extraordinary measures in order to avert economic instability.

The government aims to bolster the financial sector via a 2,600bn peso package funded largely by a 0.2 per cent tax on transactions carried out through the financial system.

The tax may seriously affect stock market activity as an equity sale or purchase entails at least three separate banking transactions. And while the government is seeking to make an exception for the market, the economic emergency measures have already scared off virtually all foreign interest.

Yet the market's wider concern continues to focus on Colombia's fiscal and current account deficits, estimated this year at 6.3 per cent and 3.8 per cent of gross domestic product.

Congress is finally making headway on the government's fiscal adjustment reform, which aims to reduce the deficit next year to two per cent of GDP, mainly by widening the base of products liable for VAT.

But investors would prefer to see cuts in public spending, up from 11 per cent of GDP to 18 per cent since 1990. Until that happens, analysts insist, any cut in interest rates will be short-lived due to the resulting pressure on the peso.

"The macroeconomic fundamentals are still not in place for a sustained rally," said Rue Swabey, head of equity research at Santander Investments' Bogotá office.

Adam Thomson

EUROPEAN PRIVATE EQUITY

Winter chill forces highway speed restrictions

As the deal flow in the private equity business slows, competitive pressure will intensify, says **Katharine Campbell**, not only with the arrival of the euro but also with the new influx of US funds – set this time to pose a more serious challenge than they did 10 years ago

Carlyle, the Washington DC-based private equity firm, had an ace up its sleeve when it made its first investment in Europe in the summer. During talks to acquire control of Genoyer, a Marseille-based family business in piping and valves, it was able to wheel in George Bush, the former US president, for a presentation.

"They shared views on the oil and gas industry but it was not because the owner met Bush that he sold us his company," says Carlyle's Jean-Pierre Millet.

Carlyle's cocktail of high-flying contacts and money has been highly successful in the US. But how extensively will the formula translate across the Atlantic? It is a question being asked about many of the American buy-out houses, whose arrival in Europe has been one of the more significant developments in the region's private equity market in the past year.

The indigenous European buy-out managers, wary of incursions on to a patch they already regard as overcrowded, have been quick to point to the similarities with the peak of the last cycle at the end of the 1980s when American houses were the well funded Johnnie-come-Latelies responsible for large leveraged transactions that went wrong.

This time, however, it is a rather different – and more experienced – coterie of private equity managers knocking at Europe's gates.

David Gregson, managing director of DLJ Phoenix Private Equity, says: "The Americans have a sophistication in their use of capital structures that we can only begin to guess at in Europe."

The macroeconomic environment is, the newcomers hope, also very different. Like their European counterparts, they look forward to operating in what they expect to be an expanding marketplace.

John Muse of Hicks, Muse, Tate & Furst, says: "The euro will mean the creation of a different landscape in terms of increased business activity and more transparency."

Peter Smitham, managing partner of Schroder Ventures, agrees. "The single currency will force massive restructuring. It won't all happen next year. It will unfold over 20. But there is huge potential for us."

The Americans' drive also reflects the internationalisation of private equity. "We are not just here to do Europe-only deals, though we will certainly do a lot of those," predicts Mr Muse. "We've been buying here for our US portfolio companies for some time and we are just beginning to invest in southern Europe for our Latin American portfolio companies."

No one would deny, though, that it is a tricky part of the cycle – and the hazards of trying to make a splash have been more than amply demonstrated by Kohlberg Kravis Roberts' abortive tilt at Hoechst's industrial paints business, Herberts, and the collapse of the publishing deal between Pearson, owner of the Financial Times, and Hicks Muse.

John Singer at Advent International cautions that chunky buy-out deals are also still scarce on the continent. "I hope there is sensitivity to the fact that transactions are not just waiting like ripe peaches."

Indeed, it is a frustrating time for all private equity participants in the wake of the summer's financial market turbulence. Jonathan Blake, partner at SJ Berwin, the law firm, says: "We are involved in a huge number of deals, but a high proportion end up not happening." Either the parties cannot agree a price – or else they cannot obtain funding.

In a sense, the stock markets have bounced back too quickly for the buy-out houses. The downward readjustment in valuations they had sought has mostly not occurred, and UK vendors of businesses continue to price their wares as if the economy were in rude health – which the indicators suggest is far from the case.

Debt, meanwhile, is considerably harder to obtain. The disappearance of the European high-yield market has left a large funding gap, while banks are doling out senior debt at markedly lower multiples of a company's cash flow. They have become particularly nervous of public-to-private deals.

John Burgess, a senior partner at BC Partners, says: "The banks have become more discriminating. In a bull market, a very good and a less good company get funded on pretty similar terms. The debt is still there for the good business – albeit at lower multiples. The difference now is that the poorer business is unlikely to get funded."

Participants will have to wait at least until the New Year for the European high-yield market to re-emerge – and even then investors will be demanding considerably higher risk premiums than they did before the summer.

In the meantime, other tricks are needed to get deals done. The equity component of transactions is rising fast – as demonstrated in the structure of the recent buy-out of the Tussauds Group by Charterhouse Development Capital from Pearson. One London house with a very large fund, under pressure from a seller to move quickly, is even considering underwriting the entire sum on its next deal and negotiating the debt later. There is increasing talk, too, of the merits of vendor notes – where the seller retains a share of the equity in the hope of extracting the rest of his cash when a high-yield bond is issued at a later date. KKR is understood to have proposed such a solution to Hoechst in its failed Herberts bid.

Even leaving aside the harsher debt conditions, private equity managers are going to have to work steadily harder to produce their investment returns. The Continent may be rich with possibilities, but it will not be an easy environment. Many buy-out firms will also be tending portfolio companies suffering from a weaker UK economy. They will be coping with a chillier exit climate into the bargain – with fewer flotation options. As Mr Singer says: "Everyone talks in their prospectus about adding value. Now they are actually going to have to do it."

Richard Warner at Investcorp says a third of the London team – made up of executives with solid industrial backgrounds – focuses on post-acquisition management, "but then we have always taken a more strategic approach". Others may have to alter tack.

A significant gap will open up between the best and worst performers – and it will probably be those houses with strategic and industrial depth rather than those with purely financial skills that shine.

The private equity business is moving into new territory – in terms of geography, nature of transaction and state of the economic cycle. UK participants who complained about uncomfortably competitive conditions a year ago may see worse yet. "Some UK funds will be blown away," Mike Smith, chairman of CVC Capital Partners, cheerfully predicts. "It has actually been a fairly calm pond to fish in. But that will change. The Americans really understand competition."

NEW ISSUES by Katharine Campbell

Newcomers escape upheaval unscathed

The successes of the continent's new issue markets have defied the summer's equity correction and the doom-laden projections of some analysts. Germany's Neuer Markt is looking particularly strong, and competition between the pan-European indices, Easdaq and Euro NM, should speed growth, even if one of them fails to survive in the process

Europe's new equity bourses for growth companies passed their first real test this summer, emerging relatively unscathed from recent financial market upheavals.

They may have a long struggle ahead before they approach the success of Nasdaq in the US, not least in terms of the breadth of their institutional and retail investor base.

But they are mostly developing well, with real differences emerging between them as regards the type of company they attract.

In some cases indices have outperformed the respective main markets, while the apparently weak correlation between price movements on the new and main bourses suggests they may hold particular allure for portfolio managers seeking diversification.

These are some of the conclusions of a preliminary study* published today by 3i Venturelab, an entrepreneurship study centre set up by 3i, the European private equity group, and Insead, the French business school.

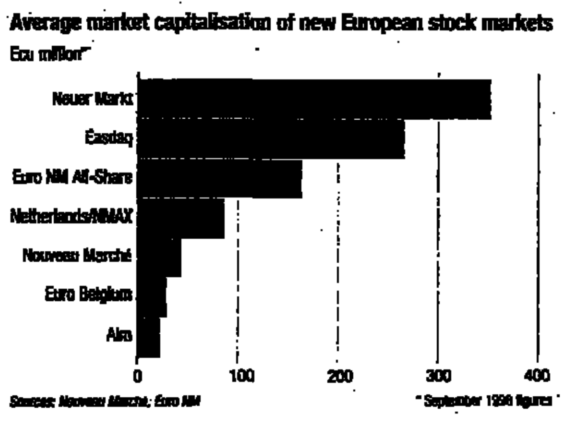
It looks at the Alternative Investment Market, Easdaq, the pan-European exchange modelled on Nasdaq, and Euro NM – a developing cross-border framework for national markets at present comprising the Nouveau Marché in France, the Neuer Markt in Germany, NMAX in the Netherlands and Euro NM Belgium. Performance is measured up to the beginning of October.

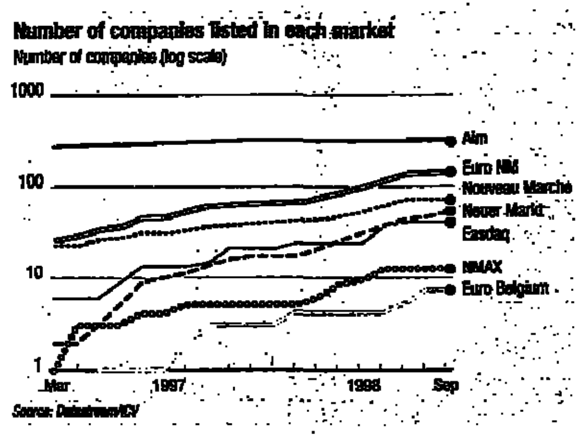
"We now have two cross-border markets, Euro NM and Easdaq, developing in parallel when two years ago there were none," says John Davies, managing director of 3i Asset Management. "There is much less need for companies to go to Nasdaq than there was."

The success of the Neuer Markt in particular has helped to effect what he sees as a dramatic shift in attitude in Germany, with a real equity culture beginning to develop.

"Two years ago every company looked to a trade sale for its exit," he says. "No one considered flotation. Now most would be talking about the Neuer Markt – they have really got the bit between their teeth."

At the same time, as the report makes clear, initial





public offering activity has almost dried up since August. Investment bankers have been advising companies not to go public, against many companies' own wishes.

"We have to make sure the pause isn't a stop," warns Professor Daniel Muzyka, director at 3i Venturelab.

Meanwhile, companies need to think carefully before choosing which market to approach, as real differences are emerging between them.

AIM, established first in June 1995, has more than 300 listings. But, while it possesses a few large companies, with 10 accounting for 19 per cent of market capitalisation, it also has a raft of small service businesses.

Euro NM, which saw a strong surge in IPO activity in the early summer, has a heavy focus on companies in computer-related fields, both hardware and software. But otherwise its portfolio is pretty diverse.

As the chart shows, the Neuer Markt is attracting some very substantial businesses and has clearly the largest average market capitalisation. The Nouveau Marché's average is lower because of the existence of the Second Marché, an interim step to the main market.

Easdaq, based in Brussels, also saw plenty of new listings in the early summer. It has a strong technology focus, with 41 per cent of its companies in computers, telecoms or biotechnology. Despite its clearly stated international aspirations, a quarter of Easdaq companies are Belgian.

Price performance has on the whole been far more robust than the report's authors expected with the exception of AIM, which in September saw its index lower than at the beginning of the year.

Between January and May the Euro NM all-share index gained 125 per cent and it was still up 50 per cent on the year to October 9.

The summer shock did reduce trading volumes, but liquidity did not dry up. Nor was there a surge in volatility in August and September, according to the study.

"When things got bad these markets would go haywire. That was the message we were hearing on the street," says Prof Muzyka.

But it did not happen. The early summer had been a period of particularly low volatility because the heavy IPO activity propelled prices in one direction only – upwards.

"But in fact volatility before and after the very fast growth period was roughly the same," says Prof Muzyka.

While AIM has almost continuously underperformed the FTSE 100 index, France and Germany's new growth company markets have both tended to outperform the main bourse indices.

At the same time price movements do not correlate well with those of the leading indices, which Prof Muzyka says could prove "intriguing" for fund managers in search of ways of diversifying their portfolios.

Transparency is improving, the study found, but further progress needs to be made.

"Investors need appropriate information. In the past continental companies were able to buffer them from the complete truth," says Prof Muzyka.

The report also contains a stern warning that national regulatory agencies must ensure "reasonably common practice". It notes how easily these "still somewhat fragile markets" could be hurt by one or two high-profile disasters.

Meanwhile, it skirts the delicate issue of competition between Easdaq and Euro NM, while noting that some participants are predicting the demise of one or the other.

Adam Quarry, marketing director at 3i, believes Euro NM has "the promise of *more support* from local participants as well as from national governments". Easdaq's advantage, meanwhile, lies in the nature of its links with Nasdaq.

Prof Muzyka himself will not be drawn. "If it really is a horse race, which itself isn't clear, it is certainly not yet at the point where I'd want to place bets," he says.

"Some big players say to me, 'We are present on all the markets. Where is the problem?' "

**European New Issue Markets: Preliminary Review. By Daniel Muzyka, Benoit Leleux and Nathalie Guegan.*

PROFILE
ATLAS VENTURE

Distinguished from the herd

The company has spent the past decade developing a reputation for specialisation

When Michiel de Haan and his partners took Atlas Venture independent in 1986, in the pioneering days of European private equity, they selected the name with care.

The Amsterdam-based company, formed from the venture capital activities of NMB Bank (now ING), was to have a handle that was both international and "language neutral", according to Christopher Spray, Atlas partner who joined that year. The "s", meanwhile, was omitted from "Ventures" in order "to throw people".

Today the company is more international than most of its competitors even if, with around $470m under management, it is still a global operator on a relatively small scale.

Atlas Venture has also managed to stand out in business as well as in orthographical terms as one of the few European houses to have made a success of investing in young technology companies.

But it has been a hard slog, beginning with an important decision by the firm in 1990 to change its spots. An examination of the business showed that, unusually, it had been less successful in buy-outs than in early stage technology investing.

That was partly a quirk of the narrow Dutch market where, as an independent vehicle, Atlas found it hard to compete with the banks who had lower return criteria.

So it opted to focus solely on investment in information technology and life science businesses, providing either seed and first round money, or later stage funding.

It also started to craft its international network. Mr Spray had opened an office in Boston in 1986. Munich followed in 1990 and since then Atlas has established a presence in Paris (1993) London (1997) and Menlo Park (this year).

Few Silicon Valley venture capitalists have expanded beyond, in some cases, a presence on the east coast, largely because pickings have been so rich on their doorstep. Yet the technology businesses they typically back are more or less global companies from inception, so the logic of the Atlas approach is clear.

"Developing a firm like this is pretty difficult," says Mr Spray. "That is why we have done it relatively slowly. We have been in the US for 12 years, but it has taken all that time for the brand to be acknowledged."

It is not enough to be "a good European firm", he adds. Atlas has to be able to compete with the best local venture capitalists too. "We have had to look at the internationalism as icing on the cake."

The "icing", if managed properly, confers a very valuable edge. As with its previous funds, Atlas's present $230m vehicle, raised in 1997 and already 80 per cent invested, does not have specific allocations for either side of the Atlantic.

"We are great believers in a bit of good Darwinism," says Mr Spray.

Being able to compare European and American companies directly is invaluable. "A central issue in this business is whether a European company can compete with the best of its kind in the US."

Atlas says European technology is every bit as sharp as that on offer in the US. The tricky part is matching the technologically brilliant founder with the right seasoned executive.

"We spend almost as much time looking for backable people as we do looking for backable companies," says Mr Spray, who thinks of himself as "a glorified recruiter". He has himself headhunted four people at chief executive or chief operating officer level this year.

Helping in this endeavour will be a man Mr Spray says may be Europe's first "entrepreneur in residence" – Vic Morris, who founded his own software company before running the European operations of two US companies, Powersoft and NetDynamics.

Mr Morris, who will work with Atlas to track down senior managers, was one of the firm's speedier hirings.

Having heard on the radio driving into work during August that NetDynamics had been sold to Sun Microsystems, Mr Spray made a mental note to get in touch with Mr Morris, who was by then running NetDynamic's worldwide marketing operation. He was beaten to it by an e-mail already waiting for him when he arrived at his office suggesting they get together.

Like all technology investors, Atlas plays a seminal role in the development of its portfolio companies that extends well beyond hiring the right executives, as Chris Ahlberg, founder of Spotfire, would testify.

A young Swede trained in the US, Mr Ahlberg had developed specialised technology for visualising complex data. He already had a number of Swedish customers in several industries, including a bank that was using it to analyse its customer profile.

"It was an interesting technology, but it was not completely obvious as to which market it was best suited," says Mr Spray.

Working in Atlas's Paris office with Philippe Claude, an expert in decision support software, and the Boston life sciences team, Mr Ahlberg decided to focus exclusively on drug discovery companies as his means of breaking into the US. Spotfire has now penetrated 15 of the top 20 pharmaceutical companies.

One of the most important contributions Atlas can make, it says, is to stop a technically driven company merely glorying in the beauty of its technological bells and whistles and to help it redefine itself in terms of the potential customer benefits.

As for its own investment preferences, Atlas pursues what it calls a dynamic strategy, shifting from early to later stage financings according to the state of the economic cycle. "It sounds very obvious but remarkably few others do it," says Mr Spray. "In a raging bull market like we had seen you don't want to be doing later stage investments."

Valuations for companies with initial public offerings in their sights were even higher in Europe than in the US, he notes. So Atlas has been focusing on early stage companies for some time.

It also differs from its competitors by rewarding all nine general partners with an equal slice of the profits; no incentives are geared to specific deals.

Its approach seems to be broadly working. It has achieved upper quartile returns in two of its three previous funds, with returns of the past few years driven by excellent results in the IT portfolio. Americans are "stunned", says Mr Spray, at how consistent the returns on the US and European investments have been.

Among its most successful deals have been Vermeer Technologies, a US internet publishing program developer, sold to Microsoft; Business Objects, a French business software company floated on Nasdaq; SolidWorks, bought by Dassault Systemes, the French computer-aided design and manufacturing specialist; and SEZ, an Austrian technology company floated in Zurich.

Life science businesses are far slower to produce returns, and the environment has been tough as well.

Now the network is in place Atlas anticipates a period of "deepening" and further specialisation within IT and life sciences – and a continuation, no doubt, of its policy to stand out from the herd.

Katharine Campbell

START-UPS by Katharine Campbell

No negative noises yet

Germany is setting the standard and dismisses sceptics' suggestions of excessive funding for the inexperienced

This year's winner of the European Life Sciences entrepreneur award went to an unusual candidate. At a conference organised in the spring by Atlas Venture and Ernst & Young, Jürgen Rüttgers, the then German minister for education, science and research and development, was singled out for his work on the BioRegio initiative, a competitive funding scheme that has spawned the creation of dozens of biotechnology companies in Germany in the last two or three years.

BioRegio is just part of a much broader package of federal and state assistance that is making Germany one of the most interesting areas for start-up businesses in Europe. Last year, investment in early stage businesses amounted to Ecu200m, according to the European Venture Capital Association. That is double the 1996 figure, and also twice as much as was invested in the UK, which has a far more highly developed venture capital industry – but not the wave of government money.

The rest of Europe is also talking enthusiastically about the need to foster young technology companies, with politicians seizing on the area as an important weapon in the battle against unemployment. Dominique Strauss-Kahn, the French finance minister, has talked repeatedly of the need to encourage the commercialisation of university research, while Peter Mandelson, Britain's trade and industry secretary, returned from a trip to the US silicon valley eager to help UK entrepreneurs.

But so far it has been little more than talk. Victor Basta, managing director of Broadview, the technology mergers and acquisitions investment bank, says: "There has been a modest increase in activity [in early stage investing across Europe], but there is no wholesale transformation. The German government is giving away money to fuel the venture industry, but no other government is – so it is not happening elsewhere."

Jim Martin, director of technology investments at 3i, which has just opened an office in Munich, praises the German government's activities. "In the UK, government assistance follows the scattergun approach. But the Germans are going out to select the winners – by restricting aid to what the experts [the venture capitalists] are backing. They are trying to create the big businesses. The danger is that they will be faster at creating the substantial companies than the UK is."

Mr Martin says that while the vast proportion of its early stage investments have to date been in the UK, 3i has recently decided to tune up its activities on the continent too. "This has been embraced particularly enthusiastically by my colleagues in Germany," he says. Whereas 3i completed five early stage deals in Germany worth £3m in the year to March, the team did 15 deals – a combined £17m – in the six months to September.

The principal German government initiative has been the BTU programme, administered by Technologie Beteiligungsgesellschaft, an affiliate of Deutsche Ausgleichsbank, and Kreditanstalt für Wiederaufbau. There are a number of parallel state programmes, notably Bayern Kapital in Bavaria. For every DM1 of venture capital investment, an embryonic technology company can attract DM1 in soft loans from the federal programme, and possibly another DM1 from the state government. The government also guarantees half of the venture capitalist's investment.

Bernd Seibel, partner at TVM Techno Venture Management in Munich, says: "With a typical start-up we might invest DM2m-DM3m, which means we can put together a total financing package of DM6m-DM9m." The money has, he believes, acted as "a magnet" to lure other venture capitalists to Germany. While some worry that it is attracting inexperienced operators, he dismisses it as "too early to tell" whether money is flowing to the wrong sorts of companies.

In the SPD-led administration, responsibility for the assistance has moved to the economics ministry from the ministry of education, science and R&D. Mr Seibel is hopeful that the programmes will continue much as before. "Put it this way, there have been no negative noises yet."

EXPANSION CAPITAL by Thorold Barker

Bread and butter diet gets tastier

The traditional core of the industry is growing steadily as entrepreneurs' loathing for selling equity declines

Expansion capital is still the bread and butter of European private equity, despite being overshadowed by the rapid growth of buy-outs in the past few years.

The recipients – usually private companies with sales of between £5m and £100m – tend not to make the headlines. But, in 1997, expansion capital accounted for over half of all European private equity transactions by number and 35 per cent by value.

Private equity funds invested Ecu3.38bn (£2.36bn) in expansion capital last year, 80 per cent up on 1993, with growth coming from changes in European business owners' attitudes to external capital, as well as from an increase in the funds available for investment.

"The sentimental link between an entrepreneur and his company has declined and he is not so worried about selling equity," says Dominique Penignon, managing director of BNP Private Equity in Paris.

He believes businesses are no longer a status symbol. In the American tradition, they are now about maximising returns for the owner and if that requires allowing in a new shareholder to realise the company's potential then it is worthwhile.

Venture capitalists say those who have inherited their businesses are still the least likely to welcome external shareholders because they see it as selling off the family silver. Instead they look for aggressive owner-managers with a vision of how they can transform their business with additional risk capital, which they cannot raise through bank debt.

"Expansion capital is not appropriate if you just want to run a business quietly. It is the person who sees an opportunity and realises the best answer is to grow as quickly as possible who needs it," says Charles Richardson, director at 3i.

"Ambitious owners also find the discipline of an outside shareholder very helpful. It is for many a step towards an ultimate listing, when they will have a lot of shareholders monitoring their performance."

As well as capital, investors bring new expertise to the partnership. As one small business owner says: "The company could not advance any further without some outside help. I needed somebody to challenge my views and help bring in new skills, like formal budgeting procedures and acquisition experience."

But investors almost invariably have to take a minority stake. They do not have the last word in important decisions, such as when they are going to exit the business. This perceived lack of liquidity has made expansion capital less attractive for some investors as it adds a level of risk. But others believe the problems can be overcome.

"We make sure we are very up front and honest [during talks] so we all understand each other's objectives. When you go into a deal you always spend a lot of time talking [to management] about how you will get out," says Alec D'Janoeff, managing director of CSFB Private Equity in Europe.

Investors tend to win deals because of personal chemistry with the owner as opposed to the price they will pay for equity. They need to demonstrate a strong understanding of the business and the environment it competes in.

For this reason, much of the expansion capital invested in each country comes from local providers. There are some firms with a European network of offices, such as 3i and Apax Partners, but it is an expensive overhead. Others have decided to diversify their investment portfolios by building co-investment relationships with firms in other countries.

Returns from expansion capital have historically been lower than from buy-outs, according to the limited aggregate information available. But, with more and more money going towards funding the growth of companies in high technology industries, such as IT and biotechnology, there are opportunities for excellent returns.

Apax partners recently demonstrated that returns in expansion capital can be far from pedestrian. In August 1997, the fund invested DM30m for a 49 per cent stake in Teldafax, a German telecoms operator with sales of DM30m. It was floated less than a year later with a market value of DM1.8bn, having increased annual sales to DM270m.

Max Burger, a partner at Apax, believes this sort of high profile success will increase the attraction of expansion capital to both investors and entrepreneurs.

Mark Hawkesworth, senior partner at Baring Private Equity in Western Europe, which is in the process of raising a $250m expansion capital fund, agrees that the segment will grow, but for different reasons: "We are seeing more and more companies coming to us looking for finance for cross-border development."

He believes price transparency from the single currency next year will increase competition in Europe and help speed up this trend.

Expansion capital is unlikely to see the wall of money that has gone into buy-outs, but changes in the European business environment should ensure that its growth continues.


Personal chemistry: biotechnology and IT companies respond to equity offers from firms that understand their business

FINANCING TECHNIQUES by Vincent Boland

Resolve to survive hibernation

Lenders are bracing themselves to tough out the hiatus in high-yield business and capitalise in the longer term

After a brief shiver, Europe's market for high-yield debt appears to have gone into hibernation.

The stock market downturn that followed the crisis in emerging markets dried up the flow of high-yield bond issuance that was beginning to emerge in tandem with a burst of activity in Europe's leveraged buy-out market.

Although many observers believe the closure is temporary, it has nonetheless slowed down the buy-out market and left a couple of notable deals in limbo, forcing lenders and buyers to renegotiate expensive bridging loans that would ordinarily have been refinanced in the high-yield market.

One of the most notable casualties of the difficulties in the high-yield market was the shelving of plans by Kohlberg Kravis Roberts to buy Herberts, the paints division of Hoechst, which was later sold to Du Pont for DM3.13bn.

The timing of the high-yield shutdown is unfortunate for the buy-out market, predicted to be one of the big growth sectors in European capital markets over the next few years.

"It is more difficult to do larger transactions today than it was six months ago," says Randl Shure, head of BT Capital Partners Europe, the private equity arm of Bankers Trust. He notes that participants in the European buy-out market were placing increased reliance on the high-yield market in doing transactions. "But my feeling is that we will see high-yield activity again in the first quarter of 1999, especially if US investors begin to come back to the market."

Much depends on investor perceptions of risk. During the past 18 months, US and European private equity funds have been queueing up to participate in the market, attracted by opportunities created by corporate restructuring across Europe: the sale of non-core businesses, a trend towards taking public companies private, and generational transitions among family-owned companies across Europe.

The imminent arrival of the euro also added a powerful incentive, and has encouraged buy-out specialists to scan the horizon for deals.

The cloud, nonetheless, has some silver lining. The absence of a high-yield option for large deals might, venture capitalists agree, dispel some of the froth that informed the later stages of the first buy-out boom, when asset prices soared in the face of a wall of money from private equity funds.

They note that the wall of money remains, but many say that changing perceptions of risk will lead to lower and more stable prices when the market rebounds.

There may also be changes in the way deals are structured, bankers say. The financing in a typical buy-out is a mixture of senior debt, mezzanine debt and equity, with the senior debt portion divided into classes depending on maturity – the "alphabet" structure. If the likelihood is that a large deal cannot be refinanced in the high-yield market, the equity portion of the financing, often around 30 per cent of the value of a transaction, may be raised.

Bankers say some deals are now coming with equity portions of 35 to 40 per cent, which is good news for equity-hungry venture capital companies.

Certainly, the hiatus in the high-yield market has not led to any fall-off in the appetite of venture capital firms for future deals. In November, Hick Muse Tate & Furst, a leading US venture capital firm, disclosed that it was seeking to raise up to $1.5bn for European buy-outs, adding to huge war chests already assembled by the big UK companies, such as Doughty Hanson, that dominate the European market.

Medium-sized deals that do not rely on the high-yield market should continue to be done, observers say. The "right mix" of senior and junior debt is easier to assemble for a mid-market transaction, one lender says, while bigger deals may continue to be vulnerable for some time to the mood swings of high yield investors.

"Deals will still get done, and mezzanine providers will benefit from that," says an executive at a mezzanine firm.

Given the resources that investment banks have put into structured finance in the past few years, competition for deals is intense, and the market's difficulties have exacerbated that trend. This could lead to a decision by some operators in the market to withdraw, although there is no evidence yet that this is happening.

Graham Urquhart, senior director of European structured finance at the Bank of Scotland, nonetheless believes that the growing sophistication of the European market, and a huge pipeline of deals over the medium term, will convince participants to tough it out.

"Lenders have become more sophisticated, and there should be a large core of banks remaining in the market. A wholesale withdrawal would not be the right thing to do strategically," he says.

EUROPEAN ACTIVITY by Katharine Campbell

Race towards a continental pile-up

Deal flow across the continent remains patchy, but the majority of firms are determined to race ahead with a strategy of local representation. Others, however, especially the relatively new entrants from the US, are convinced they can succeed with a base in London. A convergence of rival strategies seems likely to produce more than one casualty

Continental Europe continues to tantalise. The private equity business is rapidly going global, and buy-out practitioners know that the rules of the game are changing – in favour of those operators with international scope. But deciding how best to secure deals outside home territory is not easy. And the substantial commitments necessary are still something of an act of faith.

The likes of BC Partners, CVC Capital Partners, Advent International, Schroder Ventures, Apax Partners and 3i already have extensive local networks, and some are deploying significant resources to expand further. Others such as Electra Fleming – which did more than half of its European deals on the continent last year – are catching up fast. Others still, like Cinven and most of the recently arrived US buy-out houses, reckon they can operate from London.

Yet, certainly as regards the larger transactions, deal flow remains patchy, even in Germany – the market which, by common consent, holds the most promise.

Well before the summer turbulence, and the contraction in the availability of bank debt, buy-out activity on the continent appeared to have dropped off sharply. In the six months to June, only 32 transactions were completed with total funding of more than £10m, compared with 62 deals in the second half of last year and 50 in the first half. Volumes more than halved too, falling to £2.78bn, after £6.46bn in the second half of 1997, according to KPMG Corporate Finance.

KPMG had only a tentative explanation for the decline – suggesting that the arrival of large numbers of well funded private equity firms has forced up prices, so that continental acquisition targets no longer look particularly cheap compared with the UK.

Since then, Germany has seen its largest buy-out to date – the privatisation of Tank und Rast, the motorway service and petrol station chain, and there have been a handful of other significant deals, so the figures for that particular period are perhaps misleading.

What they do highlight, however, is that the flow of large deals is still highly uneven – while the troupe of operators pursuing them is expanding steadily.

Carlyle, the Washington-based firm, which has raised a Ecu1bn fund for Europe, has made one of the most eye-catching recent commitments in terms of resources on the ground – in remarkably short order.

While UK participants such as CVC have been building their operations for a decade or more, Carlyle, which only completed its fund in the summer, already has some 25 executives in the UK, France, Italy and Germany. The justification for its extensive investment, it says, is that it is searching for a rather different sort of deal from its American peers. Its first transaction – the purchase this summer of Genoyer, a family company based in the South of France manufacturing fluid piping equipment and valves – is typical of the "corporate partnering" strategy it intends to pursue.

Maurice Genoyer, the former owner, retains 40 per cent and stays on as president of the supervisory board. "He views us more as a financial partner in an industrial strategy than as a straight financial buyer," says Jean-Pierre Millet, who heads Carlyle's French operation. "We bring capital and human resources to track down complementary businesses." He says that within two weeks of the purchase he was taking Mr Genoyer to "another European country" to introduce him to a competitor. Talks about this add-on acquisition are progressing. This is the sort of deal, Carlyle argues, for which it needs "decision-makers on the ground".

Among the UK participants, 3i has one of the most extensive networks already – combined with some of the more ambitious plans for the future. "We have a very clear vision of a regional network that matches our UK regional network by 2003," says Richard Summers, director, continental European investment.

In October, it opened an office in Munich, its fifth in Germany, and has also just set up a pilot operation in the Netherlands. It now has 70 executives across the continent, up from 43 last year. "Will all this effort be worthwhile?" asks Mr Summers, replying to his own question with a categoric "yes" – and perhaps an unstated "finally".

Like others, it has found its 12-year presence across the Channel a hard slog. But Mr Summers does see the climate changing, most significantly perhaps in terms of exit opportunities for its investments, enormously boosted by the emergence of Euro NM and Easdaq as possible destinations for listing emerging businesses. He says the business achieved returns of 29 per cent – in local currency terms – in the year to March 1998, its first significant year for realisations on the continent.

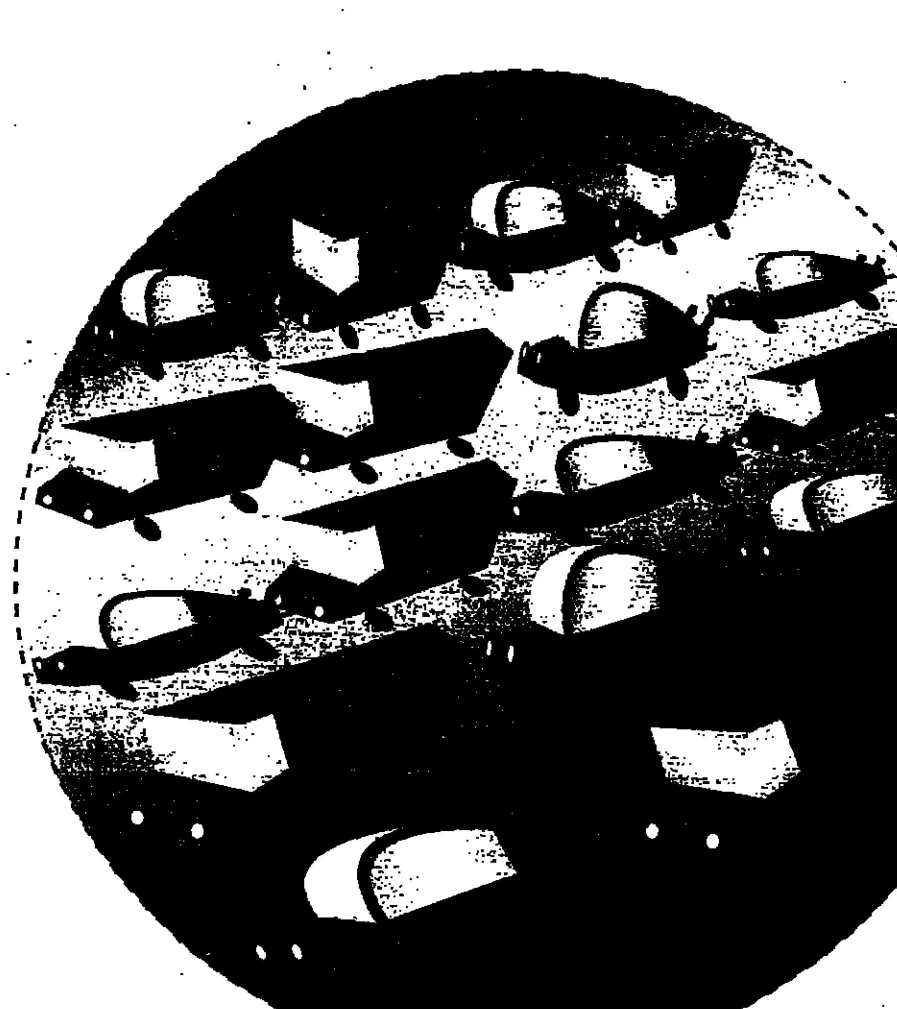
While 3i will never top the league tables for the very large buy-outs – a market it has decided to eschew – the group is aiming, in time, for a 20 per cent market share across the region, by number of transactions (taking buy-outs, development capital and early stage deals together).

The jury is still out as to who will really crack the continent, though – and with what sort of structure. It is not even clear whether those operators targeting the larger deals really need a local presence, or whether success can be achieved from London.

Charles Sherwood, a director at Schroder Ventures, which has a more "hands-on" approach than many, says: "It is absolutely clear that if you are sitting in London, you *will* see deals. The investment banks tend to be London-focused and they are controlling an increasing quantity of the deal flow. But are you going to see the right deals? By definition, you will see the ones everyone else sees. Certainly for our strategy, that is the wrong sort of deal flow."

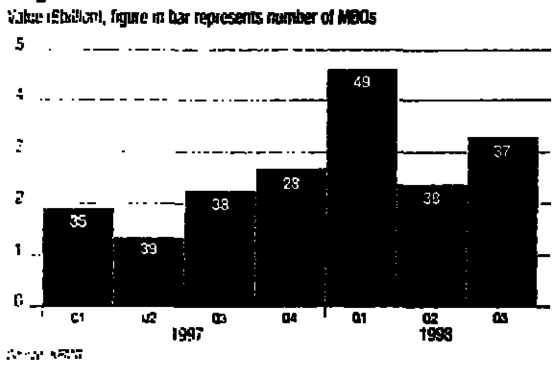
On the other hand, Cinven – which has tried the joint venture route in the past – believes it is perfectly well positioned by staying in London. Candover too, which had a joint venture with Legal & General Ventures in Germany, has unwound that, and is hiring continental European experts to work from the London base - while maintaining a joint venture in France. It plans to invest up to a third of its £850m fund on the continent, but sees its very limited physical presence as no handicap. "KKR don't have offices across America," reasons Colin Buffin, joint managing director.

Then again, continental Europe is not much like America. The buy-out houses are just betting it becomes rather more like it – and soon.



Larger UK MBOs

Value (£billion), figure in bar represents number of MBOs



Source: KPMG

Analysis of larger continental European MBO/MBIs

	Jan-Jun 1997 Number	Jan-Jun 1997 Value £m	Jul-Dec 1997 Number	Jul-Dec 1997 Value £m	Jan-Jun 1998 Number	Jan-Jun 1998 Value £m
Austria	1	54	1	20	1	84
Belgium	0	0	0	0	1	38
Denmark	1	37	2	134	1	72
Finland	2	135	0	0	3	81
France	10	891	20	2,772	9	319
Germany	17	1,328	13	740	6	737
Italy	1	192	6	1,619	1	15
Netherlands	7	363	7	110	2	1,190
Norway	2	159	0	0	0	0
Portugal	0	0	0	0	0	0
Rep of Ireland	1	10	1	16	1	10
Spain	3	80	5	69	4	119
Sweden	3	495	2	96	2	88
Switzerland	2	772	5	881	1	41
Total	50	4,616	62	6,457	32	2,794

Source: KPMG — Larger MBOs/MBIs are those with total funding of over £10m

FRANCE by Samer Iskandar in Paris

Funds from overseas spur fresh round of activity

The French private equity market is showing signs of life again. But in the five years it has been dormant, the world has moved on and become a tougher place. Now, fuelled by funds from abroad and thriving alternative markets, the outlook is healthy

French investors returning to private equity, in which many reduced their presence between 1993 and 1997 due to slow economic growth, will find the market has evolved at a surprisingly fast pace in the past few years.

With large US and British funds piling into the country, the number of deals done every year has constantly increased, as has the average size of transactions, with buy-outs of more than FFr1bn becoming a regular occurrence. Financing methods have also evolved.

"Five years ago it was unthinkable to get out of a deal by floating it on an exchange," says Hervé Marion, head of private equity at UBS in Paris. "Now it is easily done."

This is mainly a result of the fast development of the Second Marché and the Nouveau Marché, the exchanges for medium-sized companies and start-ups, respectively.

"The Nouveau Marché has worked very well until the first half of this year, but it is stalled now," says Jean-Louis de Bernardy, chairman of NatWest Equity Partners in Paris.

In August liquidity dried up on these markets as a result of the global correction. However, this is widely seen as a temporary phenomenon and activity is expected to pick up soon, helped by recent regulatory changes aimed at improving transparency.

Many UK and US investors see France as one of the most promising markets in continental Europe, and most of the larger ones have had a presence there for some time.

However, some market segments have developed faster than others. With the most active participants concentrating mainly on large leveraged buy-outs, the development of a liquid market for start-up financing has been slow.

"Financing start-ups has always been difficult in France," says Eric Adjoubel, managing partner at Advent International, the French operation of the US private equity group.

Among the difficulties faced by newly established companies is the low mobility of labour. "It is difficult to find experienced managers and convince them to join a start-up," Mr Adjoubel says.

The problem is exacerbated for fast-growing companies which have to include share options as part of new recruits' pay packages because such instruments are heavily taxed under French law.

"There is also a mentality problem," says an analyst. "Good experts with promising career prospects in a large company are very reluctant to move, especially when they are over 40."

But analysts believe France is about to experience a period of strong growth in the sector, fuelled by a combination of favourable market conditions and changes in business practices.

"The entrepreneurial spirit is on the rise in France," says Jean-Louis de Bernardy, chairman of NatWest Equity Partners, the private equity arm of National Westminster Bank of the UK.

"Large groups have only started to rationalise their activities and there are lots of family businesses facing succession problems. This means more and more sellers."

With large pools of funds made available by US and UK pension funds, finding French businesses for sale has always been more problematic than financing deals.

"There has been plenty of money around for more some years now, and more is coming in," Mr de Bernardy says. "Everything is in place for the market to take off."

NatWest Equity Partners points out that the volume of leveraged buy-outs as a proportion of gross domestic product is 10 times higher in the UK than in France.

"This does not mean French transactions are going to increase tenfold, but there is scope for a doubling or tripling of activity," says Mr de Bernardy.

Analysts also believe cultural barriers have been falling. "The business mentality has evolved," says a banker. "Ten years ago MBOs were considered immoral by a lot of people, but now they are seen as sound strategic choices."

However, the prospect of increased activity is also drawing new entrants into the market, fuelling fears that competition will intensify.

"We expect competition not only to get tougher, but also to become more diverse as new participants enter the market," says one expert.

"This could result in some foreign players, mainly those that are not really attuned to the local culture, being forced out of the market."

Mr Marion at UBS believes the number of participants will fall in the long term. "We will see fewer buyers, but more and more specialisation," he says.

"In a more competitive environment, final buyers who are specialised feel more at ease."

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GERMANY by Graham Bowley

Getting stronger and more sophisticated

Transactions are growing in number and size, but remain behind US and UK levels

"Like an adolescent but a very strong and large adolescent at that," is how one industry observer described the fast-growing German buy-out industry. Although it still lags well behind the more mature markets of the US and the UK, Germany is growing rapidly in terms of sophistication, the number of transactions and size of deals.

"It is very clear that Germany has really opened up a gap over other continental European countries this year," says Julian Longhurst, at Initiative Europe and editor of Private Equity Monitor, an industry newsletter.

The flow of deals been buoyed by the rising tide of German conglomerates that are disposing of parts of their empires to focus on core business. Companies such as Siemens, Germany's biggest electronics group, have embarked on widespread restructuring which have thrown up opportunities for private investors.

In addition, there has been an increasing trend among smaller, family-owned companies to sell on their businesses to outside investors as older generations have retired.

In response, many of the larger UK and US players whose home markets have become saturated and fiercely competitive, have moved into Germany. The presence of these players, in turn, has generated an increasingly large deal flow.

"Germany still has several key advantages over other markets in Europe. The largest advantage is that it is still very underdeveloped. Despite the flood of new capital coming into the market, the number of proprietary deals is still incredibly high and investors do not have to live by the auction process as they do in other countries," says Michael Phillips, a partner at Apax Partners in Munich.

An important boost to investor confidence in Germany has been Frankfurt's new market for small, high-technology stocks, which was founded less than two years ago. It appears to have weathered the sharp stock market declines this year and has provided an exit market for many investors that previously was unavailable in Germany.

The last 12 months have seen the biggest German management buy-out to date: the sale by the German federal government of the Tank und Rast chain of motorway restaurants and petrol stations. This was sold to a consortium of three investors: Allianz, Germany's largest insurance group, investors advised by Apax Partners, and the catering arm of Lufthansa, the German airline. They paid about DM1.2bn, as well as agreeing to take over liabilities of about DM600m. The consortium, advised by JP Morgan, plans an eventual flotation of the business.

But there have been several other important deals. Venator, the US retailer formerly known as Woolworth, sold 357 stores in Germany for about $552m. These were bought by a management team backed by Electra Fleming, the UK private investor.

Pump for growth: the Tank & Rast sell-off produced Germany's biggest ever management buy-out

The deal included equity worth DM150m and was backed by a further DM800m in lending by Bayerische Hypo und Vereinsbank. Electra Fleming took a 90 per cent stake and existing management took the remaining 10 per cent share. As has been typical of recent deals, competition to win the business was intense; Legal & General, the UK insurer, was also in the race along with other German-based bidders.

Other deals include the transaction involving the Ufa cinema chain. In addition, Vianova, the synthetic resins division of chemicals group, Hoechst, was acquired by the private equity arm of Deutsche Bank in a sale valued at DM800m. Deutsche used an existing DM350m private equity fund to pay for the division.

In another transaction, Leica Microsystems, the microscope business of Swiss-based Leica Holdings, was bought by Schroder Ventures. Schroder, which last year bought the dental equipment business of Siemens, paid about $500m for Leica, which covered the purchase price and some money for investment.

One blow to the nascent industry was the collapse of the DM3bn take over of paints group Herberts, another part of the Hoechst chemicals empire, by Kohlberg Kravis Roberts, the US private investment group. The transaction was meant to herald the arrival in the German market of the big US investment players.

But the deal fell through when KKR tried to renegotiate the terms of the takeover after financing had become more difficult following the sharp decline in world financial markets.

The implications of this are still unclear, but they could prove a long-term setback for the management buy-out industry because financial buyers may be trusted less by companies which are selling businesses to complete large transactions of this size.

Hoechst immediately turned to an industry buyer, DuPont of the US. Beyond that disappointment, however, the decline in world markets appears so far to have had little impact on activity. "The earlier fall in markets is not really going to have a huge impact. It may mean that deals take a little longer," said one industry analyst.

One banker said: "The KKR collapse could do us some damage. Sellers may turn their back on the market. But it could also do us some good because it means they will no longer just look at the price being offered but will have to make sure that they are dealing with someone who can carry the deal through to the end."

One perceived danger was the change of government in Germany. The new government, a coalition between the Social Democratic party and the Green party, has embarked on a tax reform industry that insiders feared could seriously damage confidence in the private equity market.

However, threats of a wealth tax have not been put into practice and, so far, there have been no other tax changes which would appear to affect directly the management buy-out industry, beyond the general increase in taxes that may dampen economic growth.

CASE STUDY
TANK & RAST

Petrol station deal fuels buy-out sector

Some unlikely partners have acquired a chain of state-owned service stations with an enviable grip on the market

The long-awaited privatisation of Germany's largest chain of motorway restaurants and petrol stations provided the country's biggest private equity deal to date and was arguably the highlight of the management buy-out market this year.

Tank & Rast, a network of 295 petrol stations, 329 restaurants, 54 motels and 40 kiosks, was bought from Germany's federal government by a consortium of unlikely bed-fellows: Lufthansa Services, the catering arm of the German airline, Allianz, one of Europe's biggest insurers, and Apax Partners, the private equity group.

The consortium, advised by J.P. Morgan, paid around DM1.2bn and agreed to take over liabilities of about DM600m. It was a hotly contested deal: several rival bidders, including most notably Nomura, fought for the business. It was in addition a very sensitive transaction for the German government, which took several months deliberating which consortium should win the mandate. The presence of Allianz, a respected German corporate name, and then Lufthansa which came to the deal later, played an important role in winning the German government's confidence.

The members of the victorious consortium are clear in pointing out the different skills that each bring to the deal. "Lufthansa brings operating know-how in food catering and very high quality training capabilities. One of the key deficits of Tank & Rast in the past was a lack of quality standards," says Michael Phillips at Apax's Munich office. "Allianz brings a degree of credibility with its name and financial strength. We bring know-how in transaction structuring."

The deal is a significant boost for Apax in Germany. The group already has important transactions behind it, although this is the biggest. These included the acquisition last year of Nordsee, the fish restaurant, wholesale and retail business, from Unilever. This was an important landmark for the company, says Andrew Barret of Apax Partners in London. "It acted as a springboard for us in Germany," he says. The Tank & Rast deal was driven by both Apax's London and Munich offices.

Another important transaction was the investment earlier this year in Wendeln, the German bakery group. In the case of Tank & Rast, the consortium sees great scope to improve its operation before launching a public offering, probably on the Frankfurt stock exchange, in around five to 10 years time.

"We felt that it was unlikely that it would be up and running at an optimum profitability," says Mr Barret. "There was an opportunity to raise profit and enormous scope to improve merchandising and retailing at the sights."

Investment in the company in the past has been around DM100m a year and capital spending will continue at that rate at least, or higher, Apax said. "It is interesting because the business is a monopoly. It is the only big established network. That gives us security moving forward," says Mr Barret. The consortium has committed to allow the lessees who run the Tank & Rast sights to buy a significant stake in the company.

As the country's biggest deal, the transaction is an important boost for the wider German buy-out market. It qualified as the largest private capital investment after the collapse of the sale of Herberts, the paints business of German chemicals group Hoechst, to Kohlberg Kravis Roberts, the US private equity group, which would have been a larger deal. Hoechst eventually disposed of the unit in an industry sale to DuPont of the US.

The Tank & Rast transaction is part of a trend towards bigger and more frequent deals as Germany's market becomes more mature. More international operators, like Apax, are being attracted into Germany, while the country's corporate managers are becoming more accepting of spin-offs to outside equity investors.

"We need more role models. Every successful deal makes the market grow in size," says Mr Phillips. "The relatively buoyant stock market, relatively high liquidity and very attractive tax structures for individuals make Germany one of the most lucrative places for MBOs today," he says.

"We have seen the German market evolve very rapidly over the last couple of years. There is still less capital than in the UK but a lot more money is coming in. Far more groups are here to do business and there is a growing recognition in the German business community that leveraged buy-outs are a useful tool."

Graham Bowley

SPAIN by Tom Burns

Cultural spin does not blur market focus

The buy-out sector is developing along British lines into a pivotal backer of business growth

Wheel of fortune: Madrid's Parque de Atracciones is set for an IPO

What is most striking about the private equity and buy-out market in Spain is the speed with which it has grown. "We're talking about half a dozen more firms that have opened for business here in the past year," says Javier Loizaga, executive partner of the doyen of the domestic industry, Mercapital Sevicios Financieros.

The key point, however, is not that Spain has ceased to be on the periphery; it is the manner in which the domestic buy-out market has moved on to centre stage. For newcomers entering from consolidated private equity cultures, such as the UK, the picture is familiar.

"Our business here is more like what we do in the UK than it is anywhere else in the world," says Gabriel Gutiérrez Ugalde, 3i's chief executive in Spain. With more than 40 investments in Spain since 1992, when it opened an office in Madrid, the UK's 3i group is regarded as one of the driving forces of the domestic industry.

Mr Gutiérrez Ugalde believes there is a "cultural spin" in Spain that will lead to the rapid development of management buy-outs and buy-ins.

Mercapital's Mr Loizaga echoes the forecast: "I've done two MBO transactions this year and I had done just three in the previous 10 years."

Mercapital has invested in more than 30 companies since it was founded in 1985 and it has a strong niche position in the proprietary deal segment of the industry. This is due to its considerable experience of working closely with clients and building up their companies. Loizaga has monitored the generational change of domestic management and the "tremendous growth" of an equity culture in Spain.

"When we started, we had to explain the purpose of the stock market," says Mr Loizaga. "Now the role model for the medium-sized business entrepreneur is the proprietor who has gained a stock exchange listing." Today's senior managers, in their 30s and 40s, know all about the equity market – they have studied business administration, gained professional experience outside Spain and have absorbed the financial skills of the English-speaking world.

"There is no chauvinism about accepting foreign models the way there is in France and Germany," says Mr Gutiérrez Ugalde. "Spain does not try to create its own financial culture."

Familiar methods and approaches are very useful to the new entrants seeking to advise domestic business but the obvious attraction of the Spanish market has to do with numbers. The domestic economy has very good fundamentals and Spanish companies, in the midst of market turmoil, have sound balance sheets and are raising their profits.

"Private equity here has a lot of potential because the stock exchange blips essentially don't matter," says Paget Langford-Holt, managing director of Grupo Albión, a Madrid-based investor relations and financial communications firm. The sentiment is firmly in place that the Bolsa is a tried and tested route for those who seek to clear up a family capital base or raise capital for the future.

Investment flows are not a problem because the growth of domestic funds has ensured unprecedented liquidity on the domestic markets and potential targets are thick on the ground.

"What is really special about Spain is the large spread of family-owned small and medium-sized companies," says Joaquin Tamames, managing partner of Axel group, the investment bank. "We are still basically looking at an untapped market," he says.

Mr Tamames, like other operators, is convinced that the combination of a high level of professionalism among Spain's new breed of managers and a fast-expanding presence of specialists in the private equity and buy-out business creates an intriguing cocktail. Clients and advisers alike talk of a wealth of investment projects in one of the euro-zone's most robust economies.

Private equity and buy-out interest is particularly strong among firms seeking to build up their companies in order to consolidate their presence in specific business areas. Interest in the industry centres on competitive sectors that remain highly fragmented, such as distribution and retailing, automotive components and the leisure and tourism business.

The summer's global turmoil put a summary stop to initial public offers but private equity players in Spain, gauging, as elsewhere, the return of the bull market, talk about queues and tailbacks. Mr Loizaga of Mercapital reckons there could be more than 20 IPOs ready to go as soon as the market settles, including one of his own firm's crown jewels, Madrid's Parque de Atracciones fairground.

Besides the funfair business, victims of the turmoil have included some of the most admired domestic firms. Azkar, a transport and logistics company, pulled its listing plans in September just as an offer period for 40 per cent of its family-owned stock was about to open. Others seeking a window of stock market opportunity included General Optica, a retail chain of opticians, and Funespaña, a large Madrid firm of undertakers.

Provided the market stabilises, these companies, and other forward-looking enterprises, are likely to be among the newly listed stocks on Madrid's Bolsa this time next year.

ITALY by David Lane

Foreign arrivals set off an avalanche of interest

Banks from abroad are targeting medium-sized company deals, although there are still considerable barriers to the full realisation of the market's potential

When Barclays Private Equity set up in Milan last year, it opened the way for still more funds to flow into what one investment banker describes as "an avalanche of money" looking for opportunities in Italian private equity. The British bank has joined a sizeable group of foreign institutions – some of which have been chasing and closing deals for about a decade – as well as Italian banks and funds.

A local presence is essential for investors who want to be involved in mid-market transactions, says Graeme White, managing director of Barclays Private Equity. He says deals are most likely to occur in this segment in Italy, given the large number of family-owned, small and medium-sized enterprises and the succession problems associated with generational change in the firms. Only by being on the spot can the relationships needed for deal-making with Italian family businesses be nourished.

Among Barclays' competitors is Schroder Associati which set up the country's first dedicated fund in 1988 and is one of the most active foreign institutions. "In theory, Italy is a paradise for buy-outs, but theory has not been turned into reality," says Paolo Colonna, managing director. Private equity in Italy has delivered less than it promised to, because many companies are just not purchasable, are lacking in transparency or are one-man shows. Owners' wariness towards financial buyers and problems over exiting from investments have also prevented private equity from advancing rapidly, he says.

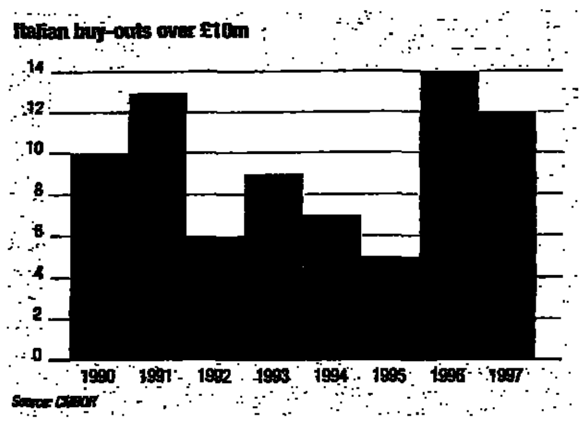
Nevertheless, Schroder Associati was able to fully invest the L95bn Italian Venture Fund that it launched in 1988, making investments in 20 companies over a five-year period. Disinvestment was completed in June this year, the fund having realised three times the original investment. Schroder Associati launched a second Italian fund, for which it raised L108bn, in 1994.

In taking the decision to open its office in Milan, Barclays Private Equity may also have been encouraged by the experience of 3i, another UK institution, which has closed 25 deals since it started in Italy in 1991. During the past 18 months, 3i has completed 11 transactions worth L100bn, and the pace is accelerating. Sergio Sambonet, general manager for Italy, says that 3i plans to invest L80bn next year, L120bn in 2000 and L145bn in 2001.

At the beginning, 3i directed its funds towards growth capital investment in mature technologies. Although a recent deal in mid-October – a 25 per cent stake in Finder Pompe, which makes pumps for the chemicals, food and pharmaceuticals industries – was a mid-technology affair, 3i is now moving into trickier emerging technologies.

Investment bankers have enthused about private equity prospects in Italy, only to be disappointed by the facts

Italian buy-outs over £10m



In the summer, it invested in two pharmaceuticals companies. Mr Sambonet says 3i has ambitions to be the leading private equity investor in Italian emerging technology.

UBS Capital, part of the Swiss bank, has been active since 1990 and has completed 22 deals, currently holding about L100bn of private equity investment on its books. So far, it has exited from 10 investments. Net of operating costs, UBS Capital has been able to show an internal rate of return (IRR) of about 75 per cent on the investments from which it has exited. "It will be difficult to maintain this," Franco Riccardi, UBS Capital's chairman, admits.

A recent report by the Centre for Management Buy Out Research (CMBOR) in Nottingham notes that the average gross IRR on realised investments in Italy between 1986 and 1996 was 31.2 per cent. Performance was best for MBOs/MBIs, where the IRR was 59.5 per cent and least good for development stage investments (18.7 per cent).

With such returns, it is hardly surprising that competition for deals is fierce. Dante Razzano, head of private equity at Deutsche Morgan Grenfell, says he was up against several other funds in negotiations for Ducati, the motorcycle-maker, a L500bn transaction done two years ago. And deals take time.

"For every deal that we close, we look at four or five in detail and 30 to 40 in broader terms. And a lot of time is needed," says Mr Razzano. But the upside of this is in due diligence, with the investors already knowing potential investments well.

Although Italian institutions are interested in private equity, the running has been made by foreign funds and banks. Italian closed-end funds have been handicapped by restrictive legislation and the country's banks suffer from a reputation for inefficiency, parochialism and backwardness.

Foreign institutions offer innovation and the international strengths that are increasingly important. Moreover, having recruited the brightest Italians, foreign institutions have all the local know-how needed.

For some years, investment bankers have enthused about private equity prospects in Italy, only to be disappointed by the facts. Although a privatisation operation provided the biggest transaction of the decade – Seat, the yellow pages publisher – public sector sell-offs have produced little, and many bankers do not expect much from them in the future. But restructuring disinvestment by foreign and domestic groups, under the driver of European integration, and family firm successions are likely to be increasingly translated into deals for private equity investors.

THE NETHERLANDS by Jeremy Gray

British invasion goes on

London-based equity houses continue to dominate the buy-out market, leaving their Dutch peers to fight hard for what's left

Among European venues, the Netherlands is a good place to stage a heavyweight buy-out. An investor-friendly tax regime, well-oiled exits and a steady flow of corporate handovers act like magnets on deal-makers.

The value of transactions so far this year has been running at around the record levels of 1997. When the big punches land, however chances are it's a UK venture capitalist making the connection.

Their lead over Dutch rivals was painfully apparent last summer, when CVC Capital Partners and Cinven, the London-based equity houses, emerged victorious in the buy-out battle for Kappa, the packaging division of KNP BT. Among a dozen hopefuls, the City duo outbid the Netherlands's leading banks and venture capital outfits, as well as trade buyers including Metsä-Sierla, the Finnish pulp and paper group, and financial groups, Investcorp and Candover.

Private equity managers expect portfolio reshuffles at Unilever and Shell to spawn a few juicy deals

At 13.5 times operating profits, the Kappa purchase was one "not seen before in the industry," Klaas de Kluis, KNP BT's acting chairman, said last May. Rival venture capitalists complained that the deal fuelled a UK-style price spiral among vendors. Six months later, despite an autumn dip triggered by the turmoil on financial markets, prices of companies up for sale remain "too high, and the deals are too leveraged and too risky," says Stan Vermeulen, chairman of Alpinvest, the second-largest Dutch venture capital company.

In any case, the highly-leveraged deal, one of Europe's biggest ever, at Fl 3.4bn ($1.78bn), was too hot to handle for Dutch venture capitalists, whose individual firepower is, on average, less than Fl 100m per deal. Most of the time that's more than sufficient. About 80 per cent of Dutch buy-outs recorded in the first half of 1998 involved companies with up to 250 employees, according to Ken Robbie, deputy director of the Centre for Management Buy-out Research (CMBOR) at the University of Nottingham.

Rivalry with trade buyers has raised the stakes. Last summer, CVC also purchased Bols Royal Distilleries, the 423-year-old maker of Advocaat and Blue Curaçao liqueurs. For the deal, believed to be worth up to Fl 550m, the British group beat industrial buyers reported to include Diageo, the newly-merged UK food and drinks conglomerate that owns Guinness and Burger King.

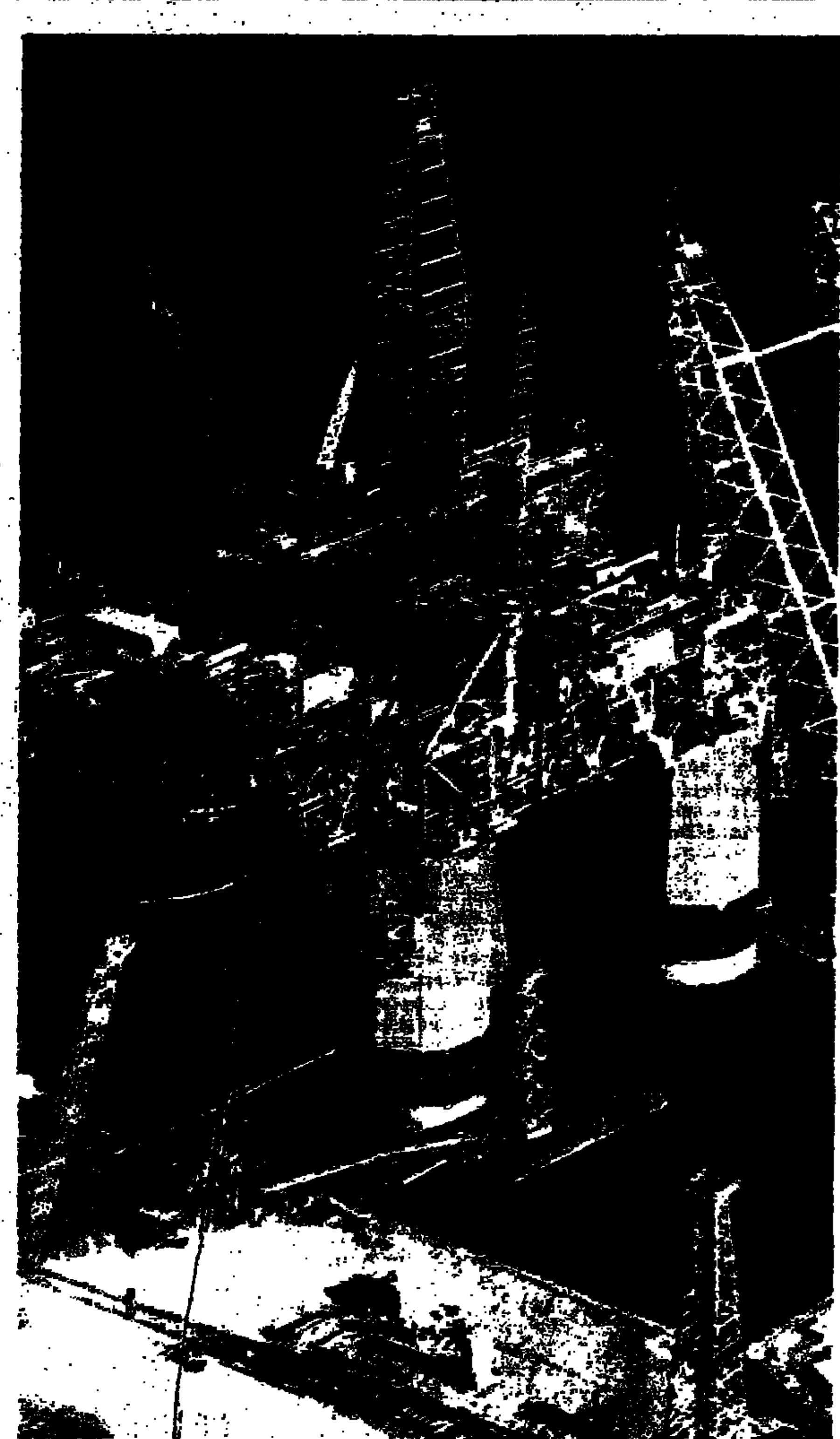
"With all those foreigners, you really have to fight for the Dutch deals," says Boudewijn Molenaar, who runs the Fl 800m buy-out fund of Gilde, an Utrecht-based venture capital outfit active in the Benelux, Germany and France.

The foreign invasion isn't exactly new. In 1997, CVC and Cinven led the year's key Dutch buy-outs, the former of Meneba, the flour and feed product producer Meneba, the latter of CFS Holding, the food processing and packaging concern. Another interloper, UBS, has been either investor or lead debt arranger in pivotal deals during the past few years.

On the other hand, US buy-out specialists, such as Kohlberg, Kravis Roberts and Hicks, Muse, are preoccupied by other European buy-out markets, such as Germany or France, and have yet to leave their mark in the Netherlands.

"Some American investors may have the appetite for it, but they've got a steep learning curve," says Guy Davison, a director at Cinven.

Corporate restructuring continues to provide opportunities. Philips, the Dutch electronics giant and Thorn, the electrical retail, rental and entertainment group, have sold Dutch subsidiaries this year. Private equity managers expect portfolio reshuffles at Unilever and Shell, respectively the Anglo-Dutch food and oil conglomerates, to spawn a few juicy deals.



Oiling the wheels: a portfolio reshuffle at Shell could prompt new deals AP

But prospects for highly-leveraged transactions such as Kappa have dimmed because banks, in the wake of the autumn tip-out on financial markets, have turned cautious about debt financing. Barclays has yet to conclude a Fl 1.7bn senior package supporting Cinven's and CVC's acquisition of Kappa, and has been waiting for the market to recover before arranging a Fl 1.2bn high-yield bond issue to cover the mezzanine financing.

So, in the months ahead, the Dutch market will continue to feed on the small- and mid-sized deals which are its specialty. A typical case was the divestment of Hertel, a maintenance and installation company with Fl 405m in annual turnover, from chemical group Cindu International. The lead investors were NPM, the country's biggest venture capital group, and Sofinim, a Belgian partner in the same sector.

Faced with the foreign onslaught, many Dutch venture capital concerns have been seeking greener pastures abroad. Alpinvest, which targets buy-outs between Fl 25m and Fl 250m, has been expanding strongly in Europe and expects its Dutch portfolio to stabilise at around the current 25 per cent of the total.

But newcomers also think across national lines. Nesbic, a unit of Dutch-Belgian financial group, Fortis, plans to launch a Fl 500m buy-out focussing on the Benelux and Germany in the first quarter of 1999.

Here, too, it remains to be seen "whether venture capital funds will compete strongly and beat trade buyers to the post," says Emile van den Burg, managing director of Parnib, a private equity arm of the National Investment Bank.

SCANDINAVIA by Tim Burt

A good time to pick and choose

The bumper harvest of opportunity that had been expected in the private equity business has failed to materialise

At the start of this year, Nordic private equity houses were predicting a bumper crop of investment opportunities – from telecoms to engineering, biotechnology to sporting goods, cement to tobacco.

Since the summer, however, the market has faltered. Fears of a global recession and volatile export demand have persuaded some companies to put expansion plans on hold, depriving equity investors of possible buy-in opportunities. At the same time, sharply reduced stock market valuations have made exits more difficult – at least at the prices previously hoped for.

The buy-out markets in the Nordic region, therefore, look set for a period of consolidation. Certainly, it is unlikely that Sweden, Norway, Finland and Denmark will record the sort of growth seen in the past two years.

Paper money: funds have been put off by low industry valuations

Sweden, for example, will have to achieve a storming fourth quarter to match the £920m of buy-outs achieved in 1997. Finland, likewise, may struggle to repeat the £486m of deals seen last year.

But leading industry executives are not greatly exercised by the apparent slowdown.

"We are only back to where we were 12 to 18 months ago, there are fewer buy-out opportunities and it is taking longer to finalise deals," says Björn Saven, chief executive of Industri Kapital, the UK-Swedish private equity operator.

Mr Saven, however, has not scaled back plans to invest its third fund, worth Ecu750m which was raised last year. Instead, it is being rather more picky about where it invests its money. And it is finding it somewhat more competitive to secure the best deals.

The reason is twofold. First, stock market volatility has contributed to greatly reduced valuations in a whole range of sectors, particularly papermaking and engineering. Lower price equity ratios are making companies that were previously deterred by trade buyers suddenly more affordable. That means that competition has intensified for the likes of Industri Kapital.

Secondly, there has been a slowdown in the number of non-core disposals by large Nordic conglomerates. Incentive of Sweden, for example, completed its long-running restructuring earlier this year by selling 60 per cent of MacGregor, its specialist cranes and materials handling business, to Industri Kapital. Nokia, similarly, has largely completed its non-core disposal programme.

The market has also been hit by a growing reluctance among credit institutions to put up capital for companies boasting anything less than a steady upward profits. Like the buy-out specialists, they are becoming increasingly choosy where to invest.

Ironically, the moribund nature of the market has been welcomed by some financial buyers. Jan Stahlberg, a partner at Scandinavian Equity Partners, believes that the inclement conditions could lead to a shake-out in the industry, leaving the fittest to survive.

In his view, that will leave the investors slugging it out with trade buyers to complete deals.

That sentiment is echoed by Mr Saven at Industri Kapital, who adds: "The advance of US private equity houses has slowed in Europe. They see less competitive advantage here than in the past."

Both Scandinavian Equity Partners and Industri Kapital agree, however, that the market is treading water rather than in terminal decline. Deals may have been postponed or scaled back, but long term plans for flotations, disposals and institutional exits remains. Non-disposals are expected at Kvaerner, the Anglo-Norwegian conglomerate, and Investor of Sweden still has more housekeeping to do.

Moreover, the heavy demand for Sonera, the former Telecom Finland which came to the market earlier this month, suggests there is still strong appetite among institutional investors in the region. But aside from such large issues, it may be more difficult raising funds for small enterprises.

Given the relatively small customer markets in the Nordic region, most start up companies rely on export exposure – up to 50 per cent in their first year on the market – to sustain themselves. With international demand faltering and currencies such as the Danish krone remaining strong, it could be difficult for such companies to establish a sufficient international orders to fund the next stage of their development.

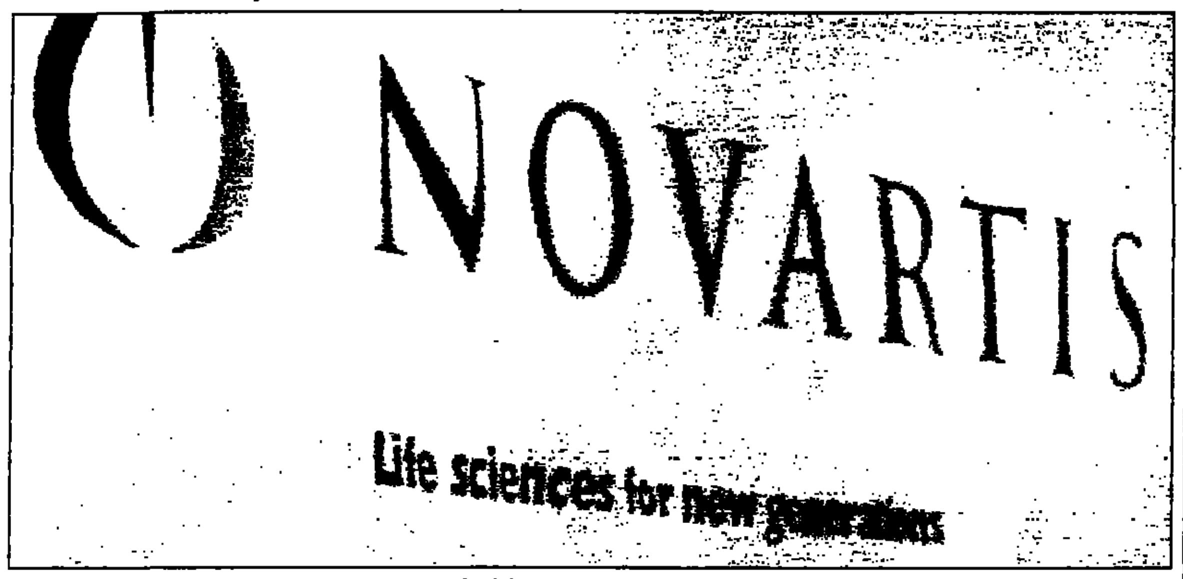
Even so, they may prove mere victims of the cycle rather than a symptom of a deeper malaise.

The deal flow may have slowed, but it is on hold – not finished. If that were the case, far more venture capitalists would be climbing on to the window ledge. Although things are certainly grimmer than this time last year, it is not yet time to jump.

SWITZERLAND by William Hall

Money managers get the bug

As the country gradually sheds its image for conservatism, its institutions, from the more established giants to smaller new entrants, are taking to the private equity sector with a new sense of enthusiasm



Zest for life sciences: industrial concerns are keen to back innovation in their own sectors AP

Switzerland is shrugging off its reputation as a nation of risk-averse investors. After a slow start, Swiss institutions and money managers have become infected with the "private equity" bug and new investment vehicles with strange names such as 5-E Holding, New Venturetec and International BM Biomedecine Holdings, have started to make their mark.

At one end of the spectrum are private equity funds being set up by industry giants, such as Novartis, the giant Swiss pharmaceutical company. It has established the SFr100m Novartis Venture Fund. In its first year, it has received 130 proposals and provided SFr28m for 29 projects of which 23 are company start-ups.

Over 80 per cent of the money has gone to the life sciences area, 6 per cent to information technology companies and 5 per cent to companies in the speciality chemicals sector. Another 20 projects are under review.

Jürg Meier, managing director of the Novartis fund, says that its advantages over some other sources of private equity finance is that it is not primarily profit-orientated, and has greater freedom to take risks at an early stage for the sake of innovative ideas.

Meanwhile, Roche, Switzerland's second biggest pharmaceutical company, has set up New Medical Technologies, a venture capital fund, which aims to back 10 new biotech companies in the hope of creating 1,500 new jobs in the next four to five years.

At the other end of the rapidly growing Swiss private equity industry is the enlarged UBS, Europe's biggest bank, which merged with Swiss Bank Corporation, its smaller rival, earlier this year.

UBS has merged all its private equity businesses, such as SBC Equity Partners in Zurich and Phildrew Ventures in the UK, into a new division, known as UBS Capital, headed by Pierre de Weck, 48, a member of the UBS executive board.

In terms of size, it is roughly on a par with the UK's Doughty Hanson. It had invested SFr1.4bn by mid-1998 in unlisted companies and looks to exit over a three to six-year time frame. In the first six months of 1998, UBS Capital increased its net profits by 71 per cent, to SFr269m, and it aims to be earning between SFr600m and SFr700m by 2002 on a portfolio which will have more than doubled in size to SFr4bn.

While the bulk of UBS Capital's business is outside Switzerland, it has earmarked SFr300m for investing in Swiss venture capital ranging from seed capital investments, to start-up capital and mezzanine capital to finance expansion projects.

The initiative has been partly spurred by the criticism of the big banks' lending policies towards small and medium-size enterprises in Switzerland. But Mr de Weck says that the recent stock market turbulence has forced some companies to postpone planned stock market flotations, which is increasing the demand for private equity from banks such as UBS.

UBS says that the SFr300m it is investing in its Swiss private equity business reflects the "dearth of risk capital" in Switzerland. However, the shortage of risk capital in the country may be more theoretical than real judging by the increasing number of investment funds being created to channel private equity into new ventures.

Some, such as Castle Private Equity, which comes out of the Liechtenstein Global Trust stable, and Bank Vontobel's Private Equity Holding, work on the fund of funds concept. They raise funds which they then distribute to managers such as Doughty Hanson and Warburg Pincus, to invest in various types of private equity projects.

Although the bulk of the private equity business is concentrated in Zurich, Geneva's Pictet & Cie, and Unigestion Holding, a Geneva asset manager, raised SFr200m for Unicapital Investments, a Luxembourg-quoted private vehicl. Meanwhile, Castle has also been active in the secondary market for private equity investments, buying about half of the private equity portfolio of the Shell pension fund earlier this year.

However, a number of new Swiss funds are being set up to invest directly in private equity. New Venturetec was floated on the stock market last year and has started making venture capital investments in areas such as biotechnology, communications, computer technology and internet, mainly in the US. It has raised just under SFr100m and, in its first year, is fully invested in 13 private and two public companies.

Another newcomer is International BM Biomedecine Holdings, which has raised SFr55m and is concentrating on taking stakes in biotech companies in Switzerland and abroad. Georges Blum, the former chairman of Swiss Bank Corporation, has taken on the chairmanship of the fund which is backed by a group of scientists such as Professor Jürgen Drews, former head of research at Roche, and Professor Fritz Bühler, head of the European Centre of Pharmaceutical Medecine at Basle's university hospital.

It is focusing on providing private equity to the biomedical research market and already has invested in a couple of biotech companies in San Fransisco, one in Conecticut and a German company based in Cologne.

It takes stakes of between 5 per cent and 15 per cent and is reckoning over the medium term on two to three of its investments every year being ready for stock market flotations or trade sales to established pharmaceutical companies.

These funds are overshadowed in size by BB Biotech and BB Medtech, two quoted funds. Based in Zug, about 35 minutes outside Zurich, BB Biotech manages about $1bn and BB Medtech another $440m. Although most of the investments are in small quoted companies, they do invest about 7 per cent of their funds in unquoted companies.

"In the US, private equity is an established asset class and there is significant interest," says BB Biotech's Andreas Bremer, who sees the same trends spreading to Switzerland. He also sees an increasing demand for broadly-based investment vehicles which might not be particularly liquid but are not necessarily risky. BB Biotech, formed in November 1993, has grown more than twice as fast as the American Stock Exchange's biotech index. Even after the recent severe market downturn, it is still showing an annual return of 12 per cent.

POLAND by Christopher Bobinski

The next step after privatisation

In recent times, focus fell on state sell-offs. Now the private equity market is establishing a wider network of activity

Poland's private equity practitioners remain confident that the country's 5 per cent growth rate and falling inflation, which dipped below 10 per cent last month for the first time since the late 1980s, will bring them through the cloud that still envelops emerging markets.

Some, though, are more confident than others. This is especially true of managers such as David Fisher at Innova '98, who saw his $125m regional fund close last July just before the Russian crisis broke. "The timing was perfect," he says. "Now assets are being revalued downwards." The fund, which aims at Poland, Hungary, the Czech Republic and Romania, took six months to close.

This contrasts with the period of more than 12 months that was needed to raise $63m for Poland Partners, a fund dedicated to Poland, in 1993. Stephen Buckley, who manages PP and went on to raise the capital for Innova '98, recalls that it was then 15 months before the fund made its first investment in Office Depot, an office equipment retailing franchise. This compares with the 30 days it took Innova to commit to its first two projects: Eastbridge, which is making over Poland's only chain of department stores, and an outdoor advertising company in Romania.

Mr Buckley says that the type of deals now being done by private equity funds, which have an estimated $1bn committed to Poland, are quite different from the transactions of the early years. "Then, in the early 1990s, four fifths of the interest was directed at privatisations of state assets. Now, that figure is down to between 10 and 15 per cent."

And, he adds, buying into a Polish company can be a regional play. "You can move through a Polish company to expand into neighbouring countries," he says.

This is not only a time of consolidation as privately owned companies merge. There is also a trend for businesses that have grown into ragged conglomerates to spin off non-core sectors. "There are management buy-outs and buy-ins we can get into," says Mr Buckley.

Meanwhile, Jeffrey Grady at BNP, who started raising $135m of regional funds late in September, should perhaps be discouraged by the post-Russian crisis gloom, but is not. "We see that investors still have a great deal of money and that eastern Europe still looks attractive," he says. The fund, which focuses on Poland, Hungary and Romania, is expected to close in February. He admits it is still difficult to sell the idea of going into a stable emerging market. "But the investment managers see the benefit of going for assets that are cheap now."

For Mr Grady, Poland and Hungary are the economies that stand out in the region. "Countries like these are going to be like western Europe sooner or later. This is an inevitable process. After all, they once were part of western Europe," he says.

Barbara Lundgren, the head of Enterprise Investors (EI), which manages more than $500m in three funds, is happy that she is concentrating on Poland. "It's a market that EI knows well," she says. EI grew out of the US Congress-funded Polish American Enterprise Fund, which was established in 1990 to aid the development of the country's private sector.

Now, EI tells potential investors that the private sector in Poland accounts for 67 per cent of the workforce and 62 per cent of industrial production. In some sectors, such as the construction industry, private secto involvement is as high as 8 per cent and in retail trade even higher at 93 per cent. EI, which has invested in more than 60 projects to date, identifies sectors such as energy, telecoms, information technology, retail and branded consumer goods as promising areas.

Ms Lundberg notes that with the downturn on the Warsaw Stock Exchange, listed companies are looking to private equity funds for capital through private placements. Polish companies still have an aversion to debt-financing brought about by a real rate of interest that is still as high as 10 per cent. This provides further opportunities.

Deciding on the type of private equity investment differ. EI is ready to go right across the board from privatisations of state companes to supporting local entrepeneurs and foreign companes coming into Poland.

PP tended to invest in leisure activities, such as bowling or children's playgrounds as yet unknown in Poland. PP also develope bankomats through Eurone where the fund made a martial exit by floating the company on Nasdaq in the US. In contrast, Mr Grady's BNP fund will be concentrating on locally owned companies developed by Polish entrepreneurs, such as Zbigniew Grycan's Zielona Budka ice cream brand, which is holding its own against giants such as Unilever.

Whatever the strategy, the private equity managers in Poland are finding it easier than they did five years ago to find sensible projects and to invest in them. "Local management is better," says Mr Buckley. But he adds that the hold of the bureaucrats is still strong.

"It's easier to accomplish things now than it was five years ago, but it is still not as easy as it should be."

HUNGARY by Virginia Marsh

Small funds stick to their knitting

Despite the dampened activity that stock market instability has engendered, a mood of confidence persists, especially for the more focused funds

Even by the most successful venture capitalist's standards, a company coming to the market valued at over $190m less than three years after being set up is a remarkable achievement.

Euronet, formed in 1994 to build a chain of automatic teller machines that could serve several banks, is one of the most successful products of Hungary's nascent private equity sector.

Euroventures Hungary, one of the earliest funds to appear after the collapse of communism in the late 1980s, was the first investor in Euronet, obtaining a large stake for less than $1m.

The success of that investment – Euronet listed on Nasdaq, the US small companies exchange, in early 1997 – is one of the reasons the fund has managed a cumulative return of more than 30 per cent in Dutch guilder terms over the past eight years.

"One of the main differences of operating here compared with a western country is that investments tend to be smaller," says Tom Howells, a partner at Antra, the fund management company – taken over in the summer by ABN Amro – that runs Euroventures. "It's hard to lend more than $5m at a time and there are no more than a handful of deals with more than $20m each year. This is not a big country and its economy is smaller than that of some western cities."

The relatively large number of small deals has cost implications – fund managers' fees tend to be higher than in the west.

"That means we have to show that the opportunities are exceptional," he says.

Another distinguishing feature of the local private equity market is that most lending is made to new, start-up companies.

"There just aren't many examples of bigger companies spinning off businesses to management groups," says Mr Howells.

While there are many pitfalls in investing in an emerging economy that has changed as rapidly as Hungary's, private equity funds have been able to cherry-pick the best deals because of the lack of competition from banks, until recently at least. In many cases, venture capital was virtually the only financing option.

"It's still hard for Hungarian companies to get bank funding for longer than a year and, with interest rates at around 18 per cent, borrowing is expensive," says Michael Carter, managing director of the London office of P.Z. Rona, which runs the First Hungary Fund.

This has, however, limited the types of deals funds can do. Mr Carter says there are few leveraged buy-outs. And in cases where problems have appeared, the fund has sometimes had to step in with extra financing. It had to double its investment in Danube Knitwear, for example, after the company, which makes T-shirts, abruptly lost its main customer two years ago. The company, which now also has a plant over the border in Romania where labour costs are lower than in Hungary, has recovered strongly. Turnover is expected to exceed $50m this year, double 1996 levels.

Private equity financing has helped Danube Knitwear recover strongly despite the loss of its main customer two years ago Victor Musat

In any case, says Mr Carter, investors in Hungarian companies need to be a lot more hands-on than in more mature economies. The First Hungary Fund almost always takes a controlling stake in the companies it invests in and appoints at least one director, usually an executive or chairman.

"The directors we bring in are often in finance or marketing positions," he says. "These two areas were huge holes in the early 1990s – virtually no one knew about them. Finance has improved partly because it's a technical issue that can be learnt but in marketing there is still some way to go."

Indeed, marketing was a critical failing in one of the fund's few flops. It made a loss of $10.6m on the sale of its investment in Mirelite, a company making frozen foods such as pizzas and lasagne.

"Despite its investment in western equipment, the company wasn't able to reorientate itself from a marketing point of view. It was used to being a monopoly," he says.

The experience also highlighted to the fund that it should concentrate on working with and entrepreneurs and start-up companies rather than with former state companies and their communist-era management teams.

"Changing an existing company turned out to be harder than starting a new one. We couldn't turn the management around," he says.

However, Rona, which plans to wind up the First Hungary Fund in 2001 and to set up a new fund early next year, did invest in some former state companies undergoing privatisation, notably Raba, the automotive parts company.

"Investing in privatising companies was a nice sideline," says Mr Carter. "But that game is pretty much over as Hungary has more or less privatised everything."

Investments in privatising companies have generally been relatively short-term – although this is not the norm in Hungary given the large proportion of early stage investments.

"You have to be prepared to hold investments sometimes until the sector, not just the company, develops," says Mr Howells.

As the domestic market is so small, many growth companies export – or aim to export – a relatively large proportion of sales. Consequently, says Mr Carter, a big issue when considering investments – the fund starts due diligence on about 10 companies and invests in about three a year – is whether companies will be able to work effectively both in the Hungarian and international spheres. This is equally true of western entrepreneurs wishing to work in Hungary.

"When looking at potential investments, we don't rely on the complex financial models used elsewhere," adds Mr Howells. "We're much less amenable to science of that kind. What's important here is to understand the country and the economic and structural changes it's going through. That's why it's important for [fund managers] to have a local presence."

Nevertheless, the trend is towards regional rather than country funds, says Steven Kopits, director for private equity at Deloitte and Touche in Budapest. Of the 25 funds active in Hungary about half are regional funds while there are eight new funds that have been recently, or are in the process of being, established. He estimates these will raise about $1bn with perhaps a fifth of this intended for deployment in Hungary. To date, he estimates, private equity funds have invested about $400m in some 100 deals.

Until now, he says some funds have suffered from a "commodity approach", being too willing to do deals of any size or type, and that, in future, there will be more pressure to specialise.

Indeed, Mr Carter says that Rona's second Hungary fund will have a narrower remit than its first and will focus on technological sectors such as software development and pharmaceutical research, building on Hungary's low-cost but well educated workforce.

"By technology we also mean sectors like engineering that use skilled blue collar workers," he says.

The boom in the Hungarian stock market in 1996 and 1997, as well as new legislation, has encouraged greater development of the private equity sector after a relative dearth of funds in the early 1990s. There is a new law to facilitate the channeling of domestic savings into venture capital funds while this year's new national pensions scheme involves a privately managed element for the first time.

The crisis in emerging markets and in Russia in particular has dampened some of the interest but this is expected to be temporary.

"There's a bit of a wait-and-see attitude," says Mr Howells. "Earlier in the summer there were a lot of central European and Hungary funds on the horizon. They remain firmly on the horizon but I don't know of anyone who has actually withdrawn."

CZECH REPUBLIC by Robert Anderson

Could do better

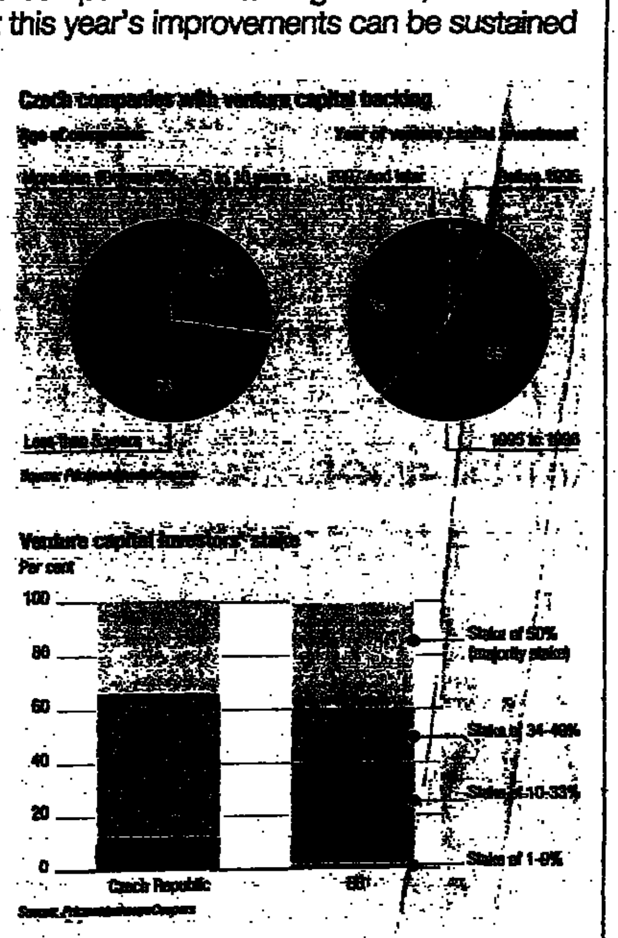
Still a weak performer compared with its neighbours, the Czech market is hopeful that this year's improvements can be sustained

The Czech Republic has been a disappointment to private equity investors but a series of big deals this year gives hope that things are now changing.

Investor interest is reviving while companies become more receptive as bank lending dries up and emerging market gloom restricts the already limited options for equity issues.

According to the European Bank for Reconstruction & Development, only 6 per cent of the estimated $7.2bn of private equity invested in central and east Europe at the end of 1997 was in the Czech Republic, compared with 23 per cent in Poland and 16 per cent in Hungary.

One cause of this poor performance was the country's falling economic growth amid mounting evidence of inadequate corporate restructuring. The government had been slow to realise that further economic reform was needed, or to heed foreign investors' complaints about the lack of corporate governance and capital market supervision.



The structure of ownership established by voucher privatisation also deterred investors. Bank-owned investment funds dominated the economy and appeared uninterested in selling their stakes or co-operating with venture capitalists.

This indirect ownership by state-owned banks gave companies ready access to loans and left little room for venture capital. "Bank lending in the Czech Republic resembled venture capital funding in more mature market economies," says Jan Tauber, head of the Prague office of HSBC.

Companies were also slow to understand the concept of private equity. There is a lack of good managers and widespread ignorance about venture capitalism, says Laurie Spengler, director of Central European Advisory Group. Czech managers are worried about losing control and do not appreciate help in developing corporate strategy.

Even when the will is there, it is often difficult to secure a deal. Good financial information is lacking, which makes due diligence time-consuming. The legal system is cumbersome and fails to protect minority investors. All of which raises the cost of the transaction.

The problem of undeveloped and untested exits also deters investors. The Czech stock market is too illiquid to support flotations. A PricewaterhouseCoopers (PwC) survey presented at a conference of the Czech Venture Capital Association last month found that only one-third of companies with a private equity investor intended to seek a listing.

This year, some of these obstacles have begun to be removed. A capital markets regulator has improved the business environment. Companies are more receptive as they struggle with recession and high interest rates and banks restrict lending. Most importantly, investment funds are being forced by new legislation to cut their shareholdings.

These changes have meant that in contrast to the PwC survey – which found that only one-third of investments were more than Ecu1m and one-half were in companies with a turnover of less than Kc50m – this year has seen a trend towards bigger deals in bigger companies.

This is exemplified by the largest deal this year when Appian Group secretly bought just under half the mining company Mostecka Uhelna from other shareholders for an estimated $100m. This outraged the National Property Fund, the government's privatisation agency, whose 46 per cent stake is now worth much less than before.

The second biggest deal was a rare instance of private equity involvement in a management buy-out. E.M. Warburg Pincus provided the finance for the management of Leciva, the country's biggest pharmaceuticals company, to buy the state's 67 per cent stake for $80m.

Interkontakt, the only other big deal this year, is an example of how some progressive managements are looking to private equity investors to finance their development plans.

The country's biggest retailer is in the middle of an ambitious expansion plan to ward off foreign challengers. It abandoned a Global Depository Receipts flotation last year after the Asian crisis and turned to a private equity fund of its advisers, CSFB, to help to fund the acquisition of the PHS retail chain in Poland.

"We needed money quickly for the PHS transaction and we had no time to wait for a public issue," says Jan Tlacbaba, chief executive. "And in the current situation on the Czech capital markets and in the economy, we probably wouldn't have got a good price and conditions."

The CSFB fund invested $46m for a 45 per cent stake and is helping to provide financial know how and international retail experts. Interkontakt now plans a GDR issue in 2000 and CSFB will probably exit then.

"We are not afraid of losing our independence," says Mr Tlacbaba. "CSFB understands that it is a great opportunity to build here in the Czech Republic, the only domestic chain that can survive."

INSTITUTIONAL INVESTORS by Jane Martinson

Venturesome pension funds may be on the increase

The UK government's encouragement seems to be persuading pension funds to take venture capital more seriously

United States pension funds invest an average of 5 per cent of their assets in venture capital funds, more than five times the UK average and significantly more than the sums raised by institutional investors in continental Europe.

The gap between US institutional investors and their UK counterparts is particularly marked as the two share many similarities in their pensions systems.

Both are defined by large occupational funded pension schemes, unlike most of continental Europe where unfunded state provision is still the norm.

To emphasis the gap the British Venture Capital Association, the industry lobby group, has released figures showing that US pension funds actually invested more than their British counterparts in UK venture capital funds last year.

To add insult to injury, the amount invested by British pension funds fell from £734m to £622m in 1997, a year when a record amount of £6.5bn was raised in the UK.

The US provided 64 per cent of overseas investment and the amount raised by overseas pension funds more than doubled from £519m to £1.4bn.

At the same time, funds invested by UK insurance companies increased more than fivefold to £1.1bn, helped partly by changes in the rules on valuing their portfolios.

This apparent lack of interest by UK pension funds in domestic venture capital has received the attention of the government.

In his pre-Budget report delivered earlier this month, Gordon Brown, the chancellor, specifically "encouraged" pension funds to consider investing in venture capital as part of his drive to increase the productivity of "UK plc". The move is to lead to a series of consultations over the coming months.

Pension funds have been left in little doubt that more coercion could be used if they fail to come up with adequate excuses for their apparent mistrust of venture capital.

The reasons for the relatively small levels of investment are many and include the traditional structure of the UK industry as well as the history of venture capital in the country.

The UK pension fund industry is dominated by the "balanced" style of fund management where one fund management company is given discretion to invest a fund's money across a range of asset classes. This style has helped to drive down the costs of active management as managers are given large chunks of assets to manage which bring economies of scale.

However, Andrew Dyson, investment consultant at William Mercer, points out that this system also makes it harder to allocate a specific amount to venture capital as it often fails to be included in the broad-brush asset classes employed by balanced managers.

There are signs that the system is changing, however, with the largest investment consultants suggesting a more mixed approach for clients using some index-tracking fund managers as well as smaller specialist mandates.

Many pension fund trustees and consultants also point to the experience of the industry in the 1980s when those interested in investing in start-up firms had their fingers burnt by a series of failures.

Clive Sherling, chairman of the BVCA and director of Apax Partners, one of the UK's largest venture capital firms, says the industry has learnt from the experience. He adds that the economic environment is also much more helpful.

"There was an absence of entrepreneurs and suitable stock markets and the wrong tax system," he says of the early 1980s.

One argument unlikely to hold much sway with the government is that first used by John Rogers, investment director at the NAPF, in response to the chancellor's encouragement to invest in venture capital.

Mr Rogers says the "management time" needed to get the most out of venture capital investment deterred pension funds, managed as they are by part-time trustees.

Mr Sherling uses an argument more likely to find favour with a chancellor who is keen to encourage "long-term investing". He argues that a typical investment in a venture capital fund should provide a return within an average of four to five years.

"With liabilities that go 40 years into the future, I have never really understood why [pension funds] think that giving money to venture capital is too long-term. That has never been a valid excuse for me," he says.

There is evidence that the government's encouragement is being planted on more fertile ground than would have been the case two or three years ago. This is partly because of changes in the venture capital industry and the recent investment success it has had.

Three years ago BVCA appointed WM, the performance measurement company used by pension funds, to measure the venture capital industry.

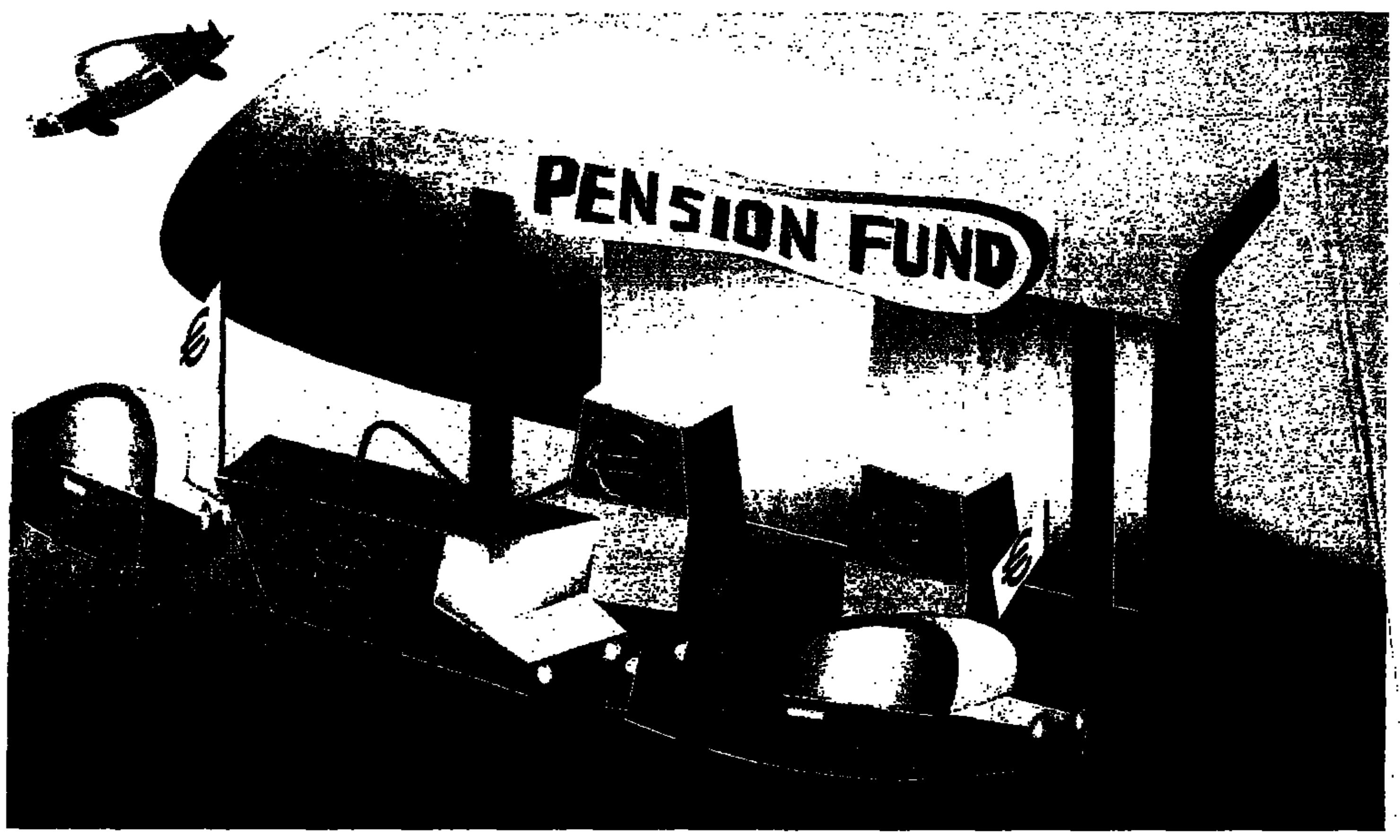
This analysis found that 152 independent venture capital firms in the UK achieved a total net return of 21 per cent last year compared with 16.8 per cent from the average pension fund measured by WM.

Over the more important three-year period, venture capital returned more than 29 per cent a year compared with 15.5 per cent for pension funds.

Mr Sherling presented the NAPF's annual conference in Brighton with these figures last May. He was disappointed with the response at the time but has since seen signs of greater interest.

"Over this year more and more pension funds and actuarial consultants and trustees are approaching venture capitalists and saying 'Maybe we were wrong,'" he says.

The venture capital industry hopes that encouragement given by the government and changes among pension funds themselves may help to reduce the gap between the UK industry and its counterpart across the Atlantic.



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Outsiders turn spotlight on thriving island

Critics fear that over-dependence on the £230bn finance industry might leave Jersey vulnerable to changes in its outlook, says **Brian Groom**

Jersey has rarely found itself so firmly in the international spotlight. For many of the island's 85,000 inhabitants, it is an uncomfortable and sometimes aggravating place to be. Two factors have put it there.

The first is the Edwards report on financial regulation in the Channel Islands and the Isle of Man, commissioned by the UK Home Office. Published last week, it warmly commended the offshore islands for their business standards, but made extensive recommendations for improvement.

The second concerns pressure from the Organisation for Economic Co-operation and Development, the European Union and the G7 nations to eliminate what they see as "harmful" tax competition and stamp out tax havens.

This has fuelled the complaints of some critics, both inside and outside the island, that Jersey has become over-dependent on the £230bn finance industry. They say it crowds out other economic activities and is vulnerable to sudden changes that might undermine the island's future prosperity.

Jersey's leaders are adamant they have chosen the right path, but the stakes are high. Within three decades the finance sector has grown to the point where it accounts for at least 55 per cent of Jersey's gross domestic product and more than 60 per cent of its tax revenues. It employs 10,000 people, a fifth of the workforce.

It has brought great economic fortune. Unemployment is below 1 per cent and GDP per head is 25 per cent above the UK average. The economy grew by an estimated 5.5 per cent in 1996, and by at least that much last year. Jersey has balanced budgets, no public debt, and a strategic reserve – its "rainy day fund" for when times get harder – equal to nearly a year's tax revenue. Its 20 per cent standard income tax rate, which applies to individuals and companies, has remained unchanged since 1940.

"The island's standard of living owes so much to finance. Everyone in Jersey in one form or another benefits from the income raised through finance," says Frank Walker, the island's "chancellor", or president of the States of Jersey's finance and economics committee.

He argues that other industries such as tourism (24 per cent of GDP), and agriculture (5 per cent) should not be written off. "The island has invested heavily in tourism – a new marina, a new museum, a new airport and a number of other infrastructure projects," he says.

Crowne Plaza is to build a £40m hotel as part of St Helier's waterfront redevelopment, which will also include housing, leisure facilities and parkland.

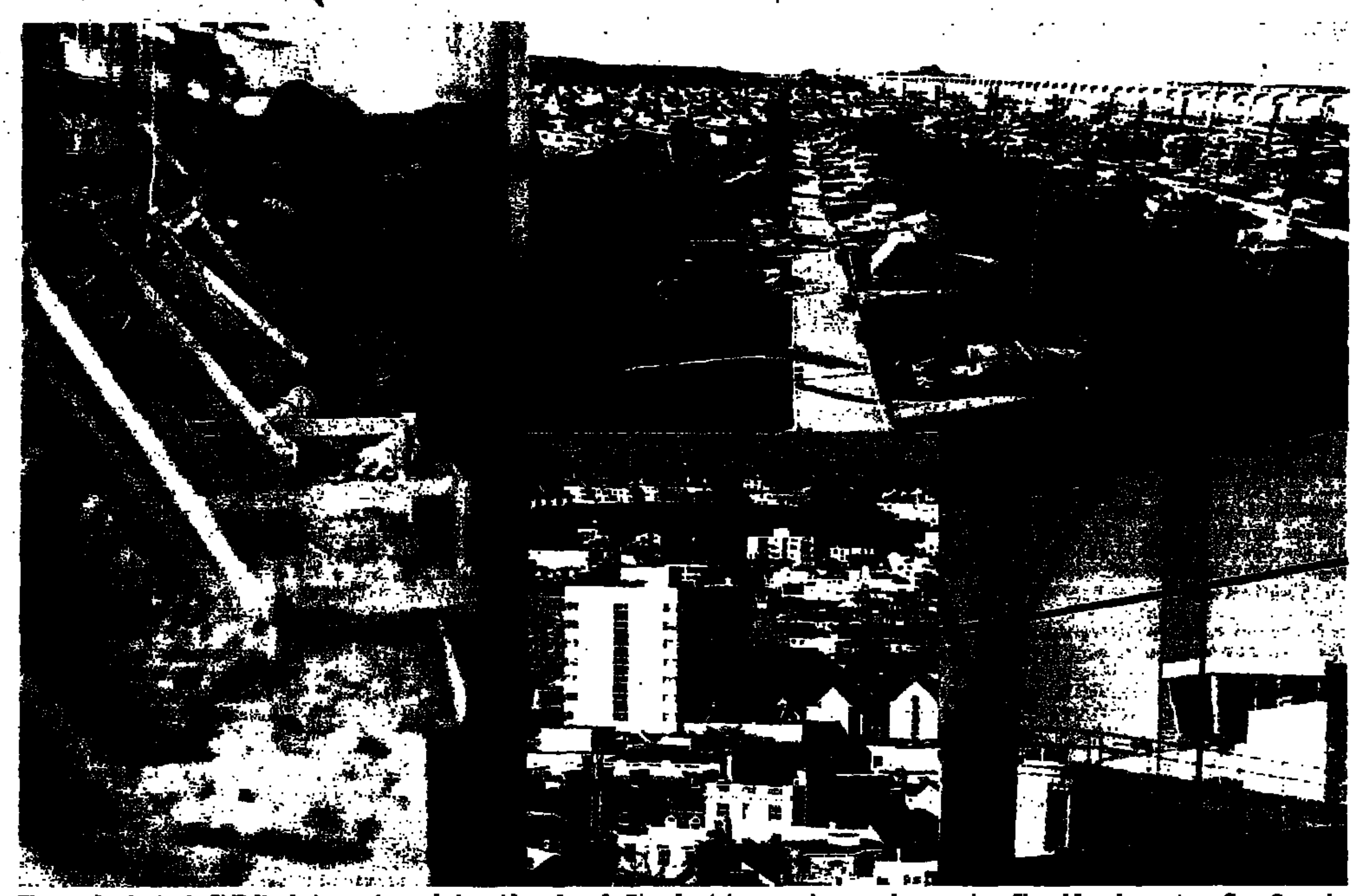
Senator Walker was delighted when the report by Andrew Edwards, a retired Treasury official, gave a broadly favourable assessment of financial regulation in the island. It rejected complaints of secrecy, poor regulation and poor co-operation with the authorities in other jurisdictions – though it implied that some of Jersey's actions on the last issue were not before time.

Senator Walker called on the island's critics to shut up. But Prem Sikka, professor of accounting at Essex University, said Edwards had missed an opportunity to tackle the underlying political factors that had turned the offshore islands into "sleaze factories" – including the lack of separation of powers of the judiciary, legislature and executive. He contended that while Edwards had given general approval, when it came to details he "put the boot in".

The recommendations include compensation schemes to protect investors, an ombudsman, further co-operation with other countries in investigations, registration for companies operating on the island but not incorporated there, filing of audited accounts, removal of politicians from the Financial Services Commission, strengthening of regulation and trust law, and a self-standing Financial Crime Unit to be set up by police and customs.

It also called for a confidential hotline for whistleblowers who suspect wrongdoing in their organisations – a legacy of the Cantrade private banking scandal, in which a bank employee claimed his warnings were ignored by management.

The Cantrade affair carries a warning of the dangers of not developing the regulatory machinery quickly enough. It involved an independent rogue currency trader who claimed to have made $15m profits since 1988, whereas he had really made $11m losses. His deals were conducted through Cantrade, a subsidiary of Switzerland's UBS.



Finance dominates in St Helier but a marina and airport have been built and potatoes remain a popular export Sinead Lynch, montage: Gary Cummins

This year the bank pleaded guilty to recklessly making false statements and was fined £3m. The trader, Robert Young, was jailed for four and a half years, and an accountant for one and a half years. But several charges were dropped because they fell outside a three-year time limit, which the States is now likely to remove.

In 1994 Jersey's finance and economics committee declined to investigate complaints about the matter, partly because the case concerned conduct of business matters rather than prudential concerns, and partly because a criminal investigation was already under way.

Edwards says that if an independent Financial Services Commission had existed at the time (it was set up this year), it would have been more likely to launch an investigation straight-away. With hindsight, the report says, "it would have been better to mount a full investigation of the regulatory implications straight away and act on them sooner".

At the time, it says, the trader's activities were not subject to licensing or regulation: this year's Investment Business Law will bring such activities into the authorities' net. There was also a lack of on-site inspections of banks, which is now being remedied.

The affair is not over yet. Though some of the 90 investors have accepted compensation, intermediaries representing the others are pressing a claim for compensation of up to $80m, including lost profit opportunities. They are also seeking a judicial review of the committee's refusal to investigate.

Mark Hampton, senior lecturer in economics at Portsmouth Unversity, says the Edwards report should be seen against a background of moves by the OECD and EU. "In the next 10 years the world financial system will be restructured in a way which dramatically changes the role of tax havens," he says.

The EU has no direct powers over Jersey because it is not a member. Jersey is a member of the OECD, however, and is lobbying to be removed from a draft list of tax havens which the organisation hopes to use to stamp out "harmful" tax competition by 2005.

Critics say Jersey's vehicles for non-resident companies – exempt companies, which pay a £600 fee instead of tax, and international business companies which typically pay up to 2 per cent – make it a classic tax haven.

Neither the finance industry nor the island's inhabitants know quite what to make of these moves. Some see any action against Jersey as a distant prospect, while others are nervous. For finance companies there are more pressing concerns, such as coping with tougher controls imposed recently on population growth: they have to seek permission for increases in headcounts, especially if these mean importing staff from the mainland, and are encouraged to relocate back office work elsewhere.

Colin Powell, due to retire at the end of the year as chief adviser to the States of Jersey, and the principal architect of the finance industry's growth, sees no reason why it should not continue.

"It's a very successful, vibrant industry. Against the background of growth of business and the very large market for the things we do, it is difficult to see how the industry is going to collapse."

FINANCIAL REGULATION by Brian Groom

Report focuses on crime prevention measures

Edwards has played a canny hand by praising the island's business standards

It will be months before the real impact of the report by Andrew Edwards, the former Treasury official commissioned by the UK Home Office to review financial regulation in the Channel Islands and the Isle of Man, becomes clear.

In some ways he has played a canny hand. By praising the islands' business standards, he made it easier for them to accept his recommendations for improvement.

The islands' critics, though, believe he has missed an opportunity for more fundamental reform.

Mr Edwards is generous in his praise. "I have no doubt that the islands are in the top division of offshore centres," he writes in the introduction to his report, published last week. He rejects complaints of secrecy, poor regulation and poor co-operation with authorities in other jurisdictions.

"Such criticisms, if applied to the crown dependencies, would generally in my opinion be quite wide of the mark. For the most part, the position in the islands is quite the opposite of what such criticisms would imply."

His shopping list of proposed changes to laws and practices, however, is extensive. About 70 recommendations apply directly to Jersey. The authorities say half of them are things they are already planning to do.

The most urgent requirement for Jersey, in Mr Edwards' view, is for the authorities "to reach a position where they can and do co-operate fully with other countries in the combatting of crime of all kinds, including tax evasion and lesser frauds as well as money laundering."

He has toned down criticisms in an earlier draft, recognising that "the Jersey authorities, in a welcome policy change, are now willing to assist overseas authorities investigating fiscal offences and smaller fraud cases." But he insists that early passage of the missing elements in the legislative arsenal is still required.

He makes recommendations for "deepening and developing" financial and company regulation, particularly in the administration of trusts. He also urges Jersey and Guernsey to consider introducing customer compensation schemes to protect depositors, investors and policyholders if financial institutions fail. The Isle of Man already has them.

He suggests that companies operating in Jersey but not incorporated there should be registered. He urges all the islands to consider introducing ombudsmen, or a joint ombudsman, to deal with customer disputes.

Other recommendations include the creation of a self-standing Financial Crime Unit involving police and customs. Overall, he suggests the island's regulators and police require 20 staff – a difficult issue at a time when the States of Jersey is limiting companies' recruitment of outsiders, but likely to be given priority.

Mr Edwards believes it would be better if politicians were not involved in the newly created Financial Services Commission. At present this is chaired by Senator Frank Walker, president of the States' finance and economics committee. He has indicated this will change, though legislation may have to be amended.

One bugbear for many in the finance industry, however, is Mr Edwards' argument that there is a case for requiring all limited companies to prepare and file audited accounts in accordance with European Union practice.

In response to pressure from the islands he has offered a compromise whereby abbreviated information – possibly a single-page summary – could be disclosed confidentially to the authorities, automatically or on request.

Senator Walker said: "All companies in Jersey have to maintain proper, complete accounts. The question of filing these accounts is a question for the Commission to look at. We are conscious at all times of the basic need of customers for confidentiality, and are also conscious of the fact that there are countries in Europe and in the US and Canada where accounts of private companies are not filed."

The States of Jersey, the island's government, has set up a task force to consider Mr Edwards' recommendations. Lord Williams, the UK Home Office minister, will chair meetings with the three island authorities, starting in January. But the final decisions in Jersey will rest with the States.

It comes at a time when Jersey is already involved in rapid legislative and regulatory changes. Its self-standing Financial Services Commission, formed last July, is keen to make its mark.

A new Investment Business (Jersey) Law extends regulation to investment advisers, discretionary investment managers and stockbrokers.

A Proceeds of Crime (Jersey) Bill, which will extend money-laundering offences from drugs and terrorism to cover all serious crimes, will be debated by the States next month.

Next year a Fiduciary and Administration Business Law will be introduced to regulate trust companies, company administrators, company formation agents and custodians.

The financial sector generally believes these changes, along with others recommended by Mr Edwards, will strengthen Jersey's reputation. There is unease, however, about some of his recommendations.

The Jersey Bankers' Association said while it supported the release of information to other authorities when serious crime was being investigated, it was concerned about "those areas which potentially affect the fine line between protecting our clients' confidentiality and the disclosure of information about customer affairs to authorities outside the jurisdiction of Jersey."

Clive Jones, head of Citibank in Jersey and president of the association, says there is a strong thread of increased disclosure running through the report. "What we oppose is the introduction of measures that intrude on the confidentiality of legitimate clients who have not committed any crime".

The general belief in Jersey, though, is that the Edwards report is beneficial. Mr Walker said: "It is an independent testament to the many successes of Jersey's financial industry."

ECONOMY by Brian Groom

Concerns in spite of prosperity

There is concern that the goose that lays the golden eggs may sicken or die

Frank Walker, Jersey's "chancellor" or president of the States finance and economics committee, has just delivered a Budget that would be the envy of his counterparts in larger jurisdictions.

Revenues from the island's thriving financial industry have turned a forecast deficit of £7m into a surplus of £16m, allowing higher spending on education, health and social security and greater capital spending while still transferring £3m to the strategic reserve, a "rainy day" fund for when times are harder.

Jersey has no public debt. Its unemployment rate is below 1 per cent. Gross domestic product grew by an estimated 5.5 per cent in 1996 and probably by at least that much last year.

GDP per head is 25 per cent higher than on the mainland, though the average gap is narrowed by higher prices and disguised by the distorting effect of a few rich individuals.

The islanders, you might think, should be contented. Many are. But a handful of vocal critics – including John Christensen, until recently assistant economic adviser to the States of Jersey – have sounded warnings about the island's dependence on the finance industry.

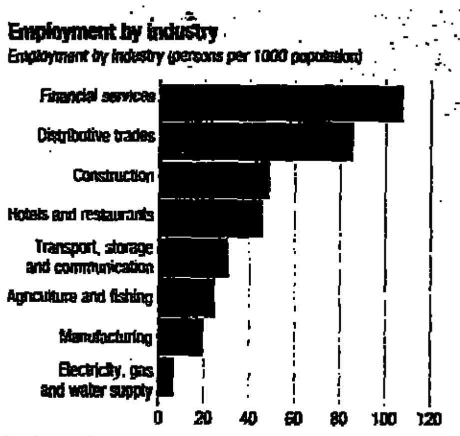
The critics' popular support may not be great but there is an undercurrent of concern, either about changes to the island's character or about the possibility that the goose that lays the golden eggs may one day sicken or die.

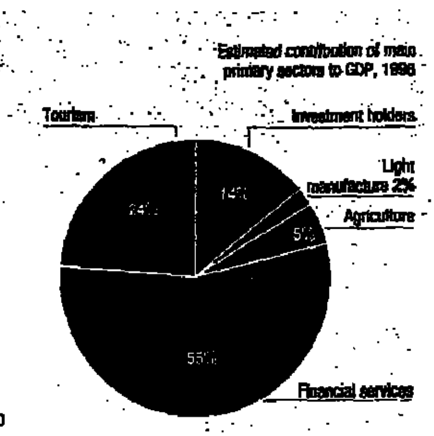
There is unhappiness, too, about overspending on public sector capital projects such as a new marina at St Helier, the main town.

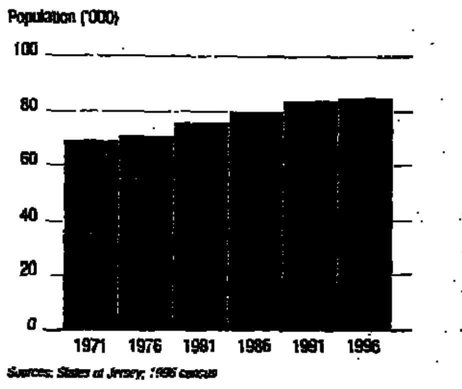
Clive Barton, a partner at Moore Stephens, chartered accountants, and member of a committee that promotes the island, says, however: "Threats to the financial industry's future are more perceived than real. It will go from strength to strength."

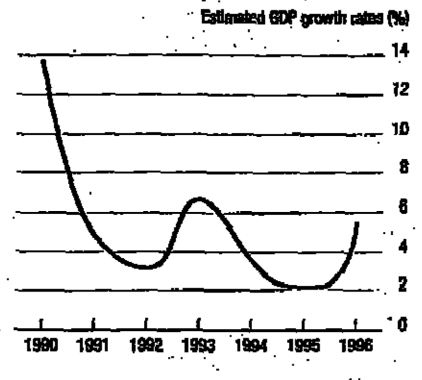
Senator Walker concurs: "The island's standard of living owes so much to finance. Everybody in Jersey in one form or another benefits from the income raised.

"Whether it is right or wrong – I personally think it is very healthy indeed – there is no going back. There is no question that a combination of tourism, agriculture or other industries could support our excellent social services and the general infrastructure."









Sources: States of Jersey; 1996 census

According to the most recent figures finance accounts for 55 per cent of GDP, tourism 24 per cent, investment holders 14 per cent, agriculture 5 per cent and light manufacture 2 per cent. These are crude estimates, however, and critics say finance accounts for more. Strathclyde University experts have been called in to build an economic model that should provide more accurate figures.

Whatever the truth, it is acknowledged that the growth of finance creates pressures. There are labour shortages in all sectors. Average earnings growth in the year to June was 6.4 per cent and inflation, at an annual 4.3 per cent in September, is above the mainland rate.

Last year the States strengthened controls to allay fears that the growth of the population, from 69,329 in 1971 to 85,150 in 1996, threatened to damage the island's environment.

Population was already controlled by setting stiff qualifications to own or lease property. Now companies must seek permission for increases in headcounts, particularly if these involve importing staff.

Growth is to be maintained by stepping up training, public and private, and increased used of technology to improve productivity. Financial companies are encouraged to outsource back office work to places such as Dublin, the Isle of Man or London.

That can bring stresses. One banker says: "Hong Kong has 6m people on an island the same size, so what's the problem? If they are not careful companies will take their front office work away as well."

Information technology, for which the States set up a £10m fund last year, is seen as a way to diversify the economy, though it is uncertain how far it can grow beyond the demands of the finance sector.

The machinery of government, meanwhile, is being overhauled. A review body, including people from outside and inside the island, will be appointed to examine all aspects of government.

Controls on capital projects, which led to a £23m marina over-running its budget by £8m and further overspending on a rainwater cavern in St Helier, are being tightened.

Senator Walker is concerned about the state of the global economy but Jersey, he says, is in a "superb financial position". He predicts that its finance industry will remain buoyant.

PROFILE
FRANK WALKER

Equal to the challenge

Frank Walker admits the past year has been "challenging". A series of controversies has enlivened Jersey's normal atmosphere of quiet prosperity, and as president of the States finance and economics committee – the island's "chancellor" – many brickbats have flown his way.

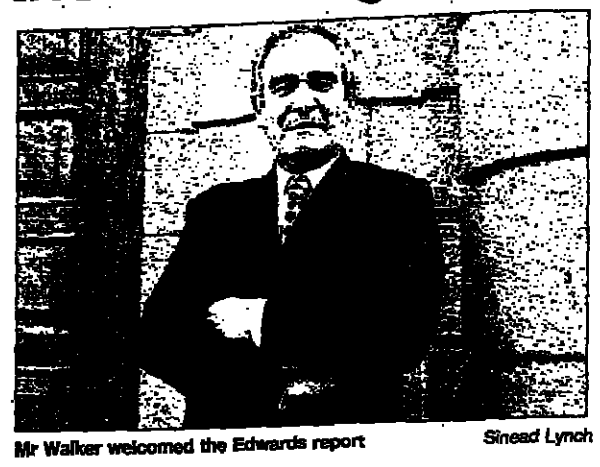
It is not so much pressure from the European Union and Organisation for Economic Co-operation and Development to close tax loopholes that bothers him.

"These are international moves that we need to be aware of and respond to sensibly," he says.

But he adds: "I do get frustrated, not to mention plain angry, with some of the ill-informed, extreme and deliberately damaging statements that are made by some critics from outside the island and within."

The year began with anger among Jersey's establishment, and those of Guernsey and the Isle of Man, that Jack Straw, the Home Secretary, broke with precedent by not consulting them when he appointed Andrew Edwards, a retired Treasury official, to review the islands' financial regulation systems.

Despite this, Mr Walker welcomed the Edwards exercise. He believes that and the results were sufficiently favourable to rebut the allegations of critics such as the Labour MP Austin Mitchell, who has challenged the island's low-tax status and political systems.



Mr Walker welcomed the Edwards report — Sinead Lynch

"That external validation of Jersey as a well-regulated financial centre is very valuable to us," says Mr Walker. "We are not complacent and we will look at Mr Edwards' recommendations for improvements very seriously indeed."

Senator Walker's own dual role as chairman of the recently formed Financial Services Commission as well as chancellor is likely to end at Mr Edwards' instigation.

Even the Cantrade private banking scandal, which involved a subsidiary of UBS, the Swiss bank, and a rogue trader who concealed losses, has a silver lining, Senator Walker believes. Jersey showed that it could mount successful prosecutions in a complex fraud case whereas "in the UK the Serious Fraud Office has had some spectacular disasters in court".

Lessons have been learnt from the affair, he says, and regulations tightened. In London scandals reflect on the institution concerned rather than the City, whereas in an offshore centre they are seen as a reflection on the island.

What annoys the chancellor, however, are the criticisms of a small number of vociferous Jersey dissidents who believe the policy of encouraging the further growth of the finance industry is misguided.

Recently he has been faced with claims that the holiday resort is being turned into "Singapore-on-sea", that a gap between rich and poor is generating homelessness and that the finance industry might collapse within 10 years.

He replies: "The quality of the built and natural environment is better than it has ever been. The countryside has been protected, and look at the quality of the town compared to what it was five or 10 years ago.

"One homeless person is one too many, but it is restricted to a very small number of people indeed.

"One of our two major policies is to eradicate poverty completely and we are paying great attention to that by providing full employment and ensuring that those who require it have the necessary support from within the island system in terms of benefits and housing support."

The finance industry, he insists, will not collapse. "I genuinely believe we face the long-term prospect of a very buoyant finance industry based on high quality, legitimate business, and we will continue to extend our high reputation and the understanding of our position as a good neighbour to both the UK and Europe."

Brian Groom

RELATIONS WITH THE EU AND OECD by Brian Groom

Happy to continue going it alone

The authorities are quick to argue that Jersey is a low-tax jurisdiction, not a tax haven

Jersey's relationship with the European Union is coming into question, not just because of the impact of the single currency but also because of EU moves towards tax harmonisation. These are also reflected in efforts by the Organisation for Economic Co-operation and Development to remove what it sees as harmful tax competition.

But the island's authorities are quick to argue that Jersey is a low-tax jurisdiction, not a tax haven.

They also point out that the writ of Brussels does not extend to St Helier because Jersey is not part of the EU.

Under Protocol 3 of the UK's 1971 treaty of accession Jersey negotiated an arrangement whereby it is within the customs union but not subject to directives on subjects such as tax harmonisation, the free movement of people or the provision of financial and business services.

That is frustrating for European Commission officials concerned about what they see as the distorting effect of territories with special standings such as the Channel Islands, Isle of Man, Dutch Antilles, San Marino, Andorra and Monaco.

The commission recently proposed an EU-wide minimum withholding tax on savings income and a voluntary code of conduct aimed at eliminating tax breaks to specific sectors or regions.

It added that countries with dependent or associated territories "should undertake, within the framework of their constitutional arrangements, to ensure that equivalent measures are applied in those territories".

Colin Powell, chief adviser to the States of Jersey, says: "The constitutional arrangements are straightforward. The United Kingdom does not legislate for the island and taxation would be a precedent. They never have and there is no interest in doing so."

Jersey is a dependency of the Crown, not the UK government, through a Norman constitutional line that predates William the Conqueror's invasion of England.

The Home Office handles its external affairs but the island is self-governing. Some constitutional authorities claim an ultimate right for the UK to legislate but, says Mr Powell, it is more likely to do so on a strategic issue – such as if Jersey had allowed Russian submarines to be based there in the Cold War – than on a tax matter.

The UK is against a withholding tax because of its impact on the City. In the short term an EU withholding tax would be a boon to islands such as Jersey so long as they were not a part of it, because it would attract more cash offshore.

That does not stop speculation about the longer-term threat. With a single currency and a single market, arguments in the EU against tax distortions are likely to grow.

"There are things the EU could do unilaterally," says Nicola Davies, partner at lawyers Mourant du Feu & Jeune. "It could impose taxes on money going to and from vehicles that are offshore but it would be very short-term to do that. You would see a flight to the Caribbean and other jurisdictions."

The OECD is a more immediate threat for two reasons – because Jersey is a member and because the organisation plans to draw up a list of tax havens by next October. Jersey was on the provisional list and is lobbying to be excluded.

Mr Powell says: "If there is going to an assault on harmful tax competition Jersey will play its part provided there is a level playing field."

To put Jersey on the list but leave out Luxemburg and Switzerland would, he says, be inequitable. He also points out that Jersey's 20 per cent income tax rate, which applies to individuals and companies and has remained unchanged since 1940, is higher than Ireland's 10 per cent corporation tax.

Even if debate focuses on vehicles for non-resident companies – such as exempt company status, under which they pay a £600 fee in lieu of tax, or the international business company, which pays up to 2 per cent on international activities – Jersey will point to similar vehicles elsewhere.

For most financial institutions the advent of the euro in 11 EU countries on January 1 is the most imminent concern. Some have their euro products ready.

"We aim to grow our European business from less than 10 per cent to more than 50 per cent within three years," says Nick Owen, managing director of Fleming Offshore.

He even foresees Jersey adopting its own version of the euro before the UK, especially if an independent Scotland has joined. But, as 80 per cent of Jersey's tourists and most of its imports come from the UK, that can only be speculation.

INSURANCE by Philip Jeune

Fussy policy prevails

Although the sector has seen some growth, this has been slow and steady

Jersey came late to insurance, initially deciding that banking and fund management would be the two main arms of its emerging finance centre activities. Captive and third-party insurance business was sent elsewhere, the island considering their operations too labour-intensive for a small island with a finite workforce.

Two decades on, the results are clear to see: a burgeoning finance industry valued at £330bn, of which insurance business represents only £416m. Guernsey and the Isle of Man have hundreds of insurance companies under management, while Jersey has just 14. So, it is no exaggeration to say that the sector is perceived as a weak link in Jersey's financial services.

Certainly, Home Office investigator, Andrew Edwards, appears to think so, judging by his report on the island's financial laws and regulations. This calls for substantial improvements in Jersey's insurance legislation and an additional experienced supervisor at the newly-formed Financial Services Commission.

The island authorities are likely to respond positively to Mr Edwards' recommendations for they now have a different attitude towards insurance business, prompted by the need to offer a comprehensive package of financial services.

Two years ago, a new insurance law permitted captive and third-party companies to be established in the island for the first time, although nobody has been killed in the rush. That is due to three factors: the fact that Jersey will only accept applications from blue chip organisations, the lengthy process (as much as two years) that it takes to register an insurance company and the recent "softness" of insurance premiums that has reduced demand for offshore "captives".

"Slow and steady" is how best to describe the way in which the island's insurance sector has grown but that presents no problems to industry regulator Nigel Woodroffe, the director of insurance at the FSC, who is quite happy for it to stay that way.

"If Jersey is going to continue to be recognised as one of the best-run financial centres in the world, we must attract only the very best companies," he explains, pointing to some of the impressive names among the 14 that have been allowed to set up on the island.

Most prefer to keep their parent company's identity strictly confidential but others clearly indicate their lineage. This includes G3 Mortgage Reinsurance (a subsidiary of the massive Federal Home Loan Mortgage Corporation), BT Reinsurance, Liberty International Life and Scottish Widows International.

More well-known names are likely to follow. "We've got half a dozen in the pipeline at the moment," says Mr Woodroffe. "And they are all very big players."

However big the parent company, though, it still has to furnish the FSC with a five-year business proposal and keep updating Mr Woodroffe annually with further five-year plans as they build up their claims experience.

With registration taking years rather than months, and with substantial information having to be disclosed, Mr Woodroffe, who spent 15 years in the insurance industry before taking up his appointment in October 1996, works more closely with practitioners than his counterparts in banking and fund management.

However, Mr Edwards believes that such a level of regulatory support for developing the industry and creating products is "acceptable", provided that supervisory principles of a high standard are adhered to.

If "slow and steady" are the adjectives that sum up this fledgling industry, then Mr Woodroffe has no problem with that.

"We have a long way to go in getting our name known and gaining credibility with the insurance industry worldwide, especially the bankers and advisers who will recommend their clients to move their insurance business offshore.

"I hope we can continue to grow steadily and to resist the temptation to simply increase registrations so that we look good in comparison tables with other offshore centres."

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BANKING by Brian Groom

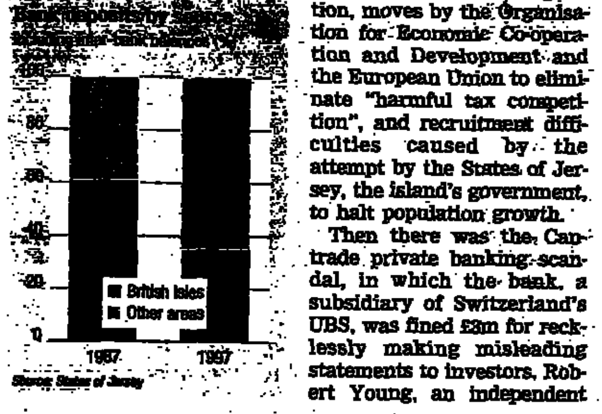
Record profits still rolling in

Rules are being tightened following a fraud case involving a foreign bank

The banking sector is healthy and the outlook is bright — Sinead Lynch

On the face of it, Jersey's banking sector could scarcely be healthier. The 79 international banks on the island held combined deposits of £103.7bn in the third quarter, four times the level of a decade ago. Many have announced record profits.

The health is genuine and prospects remain good, but the underlying mood is slightly nervous. "People are skittish at the moment, though paranoid would be too strong a word," says Clive Jones, head of Citibank on the island and president of the Jersey Bankers' Association.



This is caused partly by external perceptions. "There is a lack of understanding of what the island does, so you get misleading and misinformed views.

Tax is low on the list of reasons for coming to Jersey and it's certainly not a centre for money laundering," says Cameron McPhail, chief executive of Royal Bank of Scotland International.

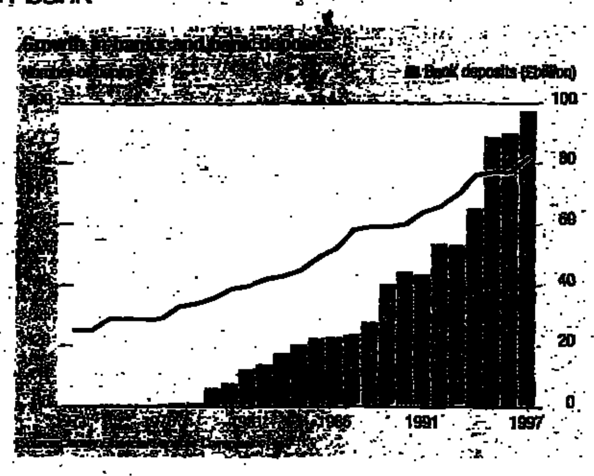
There is also much debate about the future of regulation, moves by the Organisation for Economic Co-operation and Development and the European Union to eliminate "harmful tax competition", and recruitment difficulties caused by the attempt by the States of Jersey, the island's government, to halt population growth.

Then there was the Cantrade private banking scandal, in which the bank, a subsidiary of Switzerland's UBS, was fined £3m for recklessly making misleading statements to investors. Robert Young, an independent currency trader, lost at least $11m of clients' money while claiming he was making substantial profits. He placed the money with Cantrade for trading purposes.

Jersey showed it could successfully prosecute a complex fraud case, something the UK's Serious Fraud Office has not always achieved.

Apart from the fine on Cantrade, Young was jailed for four-and-a-half years and Alfred Williams, an accountant, for 18 months.

Legal actions over compensation remain unresolved, however, and the affair showed that problems can arise in big banks as well as small financial companies.



Jersey's policy of granting licences only to banks from the world's top 500 was not a sufficient safeguard. "You have still got to carry out the regulation," says Roger Bignell, banking director at the Financial Services Commission.

Rules are being tightened. A new Investment Business Law will extend supervision to the type of discretionary investment business operated by Young, and amendments to the Banking Business (Jersey) Law will give the commission powers to make public statements in the interest of depositors. The commission will also step up on-site visits.

Bankers on Jersey believe it to be a well-regulated centre. They welcome the Edwards report on offshore islands and a raft of new Jersey laws, including a proposed "all crimes money laundering law" that will extend the law on drug trafficking and terrorism to other serious offences.

Some are concerned it will turn them into unofficial tax collectors – it does not apply directly to tax evasion, but does so when combined with crimes, such as completing a false tax return. The draft guidance notes, however, do not make the requirements seem onerous.

The days when criminals arrived in Jersey carrying suitcases of dirty money are long gone, says Alan Binnington, litigation partner at lawyers Mourant du Feu & Jeune, but money laundering is such a huge international activity it is hard to say none passes through.

Of more immediate concern to many bankers are the population controls.

The States has asked for three-year agreements on headcounts, which is reinforcing productivity-raising trends towards higher value transactions, outsourcing back office operations to places such as Dublin and the Isle of Man, and greater use of information technology.

Lloyds TSB, which has used its offshore operations as a prototype for merging the two halves of its operation and launching newly-branded products after the 1995 merger, is popular with the authorities because it has reduced staff by 12 per cent to about 800. "New accounts and new income streams were up by more than 25 per cent last year," says Mark Smith, island director.

Bank deposits have shifted from sterling towards other currencies as more international banks have arrived. Many are now preparing euro products.

Mr Jones of Citibank is confident the banks will be "a profitable part of a prosperous Jersey as far ahead as I can see".

FUND MANAGEMENT by Brian Groom

Growth expected to resume after slowdown

Investors have been prepared to take the long-term view

The volatility of world financial markets in recent months has halted, probably temporarily, the growth of Jersey's fund management business.

The industry was, however, somewhat relieved this month when the Financial Services Commission announced that funds under management at the end of the third quarter had held relatively steady at nearly £37.8bn.

Although this was down by £19.8m on the previous quarter and £76m on the record level of a year earlier, it covered a period of sharp falls in western stock markets.

Record sales earlier in the year had already helped the industry to cope with big declines in east Asian markets such as Hong Kong, Singapore and Thailand.

Martin Dryden, managing director of Gartmore Fund Managers International, who has just stepped down after three years as chairman of the Jersey Fund Managers Association, says: "I remember the 1987 crash when we saw panic among shareholders.

"In the past three months investors have been prepared to take the long-term view. We have seen some movement into bond funds and money funds, but continued investment in equities."

Jersey's fund management business, worth just £4bn a decade ago, has grown steadily apart from a static period in the mid-1990s when Dublin was providing stiff competition, taking advantage of the European Union's "Ucits" directive establishing a single market in collective funds, which allowed funds domiciled there to be marketed throughout the EU.

As non-member of the EU, Jersey was at a disadvantage, though there are marketing agreements with individual countries.

The industry has seen two broad trends, towards the growth of non-UK business and away from retail and into higher-value institutional investment. For UK investors tax changes have eroded the advantages of offshore funds.

"You are better off in a Pep or an Isa than you would be in a Jersey retail fund except in special circumstances," says Jonathan Overland, chairman of Newton Fund Managers (CI) and publicity officer for the managers' association.

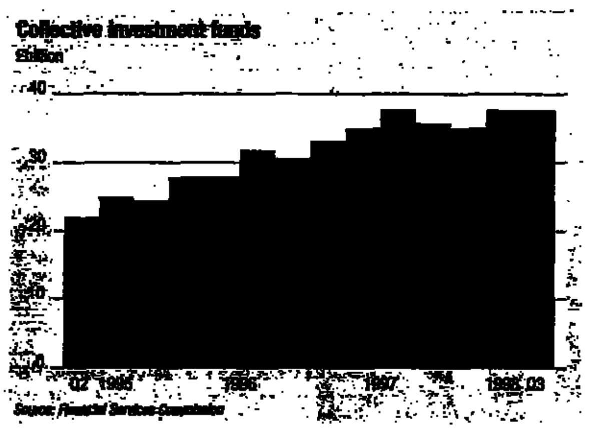
Growth areas include Chinese investors in Hong Kong, pension funds in Latin America and institutional investors in Japan.

Most of Jersey's funds operate under the Collective Investment Funds (Jersey) Law of 1988.

There are 329 funds, some of them "umbrellas", with a total of 1,190 separate investment pools. Of these 259 are open-ended funds, accounting for £33.5bn.

In addition there is significant hidden growth in private funds, the "Cobo" funds run under the separate Control of Borrowing Law.

John Pallot, director of investments and securities at the Financial Services Commission, estimates these funds, for up to 50 people, at about £20bn. Some industry executives believe this sector should be more closely regulated.



Income tax: Jersey/UK comparison 1997

Gross income	Jersey net income	UK net income	Monetary difference	Percentage difference
10,000	12,388	9,948	2,440	24
15,000	15,222	13,748	1,474	11
20,000	20,008	17,548	2,462	14
25,000	23,722	21,348	2,374	11
30,000	27,222	25,030	2,192	9
35,000	30,722	28,830	2,892	10
40,000	34,808	31,230	3,578	12

This table is based on allowances and benefits for a married couple with two children with the husband as sole income earner. This table is based on the Jersey calendar year 1996 and the UK year ended April 5 1997

Source: States of Jersey

There has also been a massive increase in special purpose vehicles for a wide variety of securitisation and debt issuing structures. These can be multi-billion dollar deals.

A Jersey company was the vehicle nearly two years ago for a $4bn US bond issue to finance the acquisition of 229 commercial aircraft.

The regulatory environment is changing. The new Investment Business (Jersey) Law provides for the supervision of stockbrokers, investment advisers and discretionary investment managers.

It strengthens co-operation with regulators around the world and allows the authorities to "name and shame" institutions when it believes there is something to warn the public about. Jersey has also updated its collective investment funds law in the light of changes in British law.

Fund managers have to be alert to cope with both the regulatory changes and volatile markets.

Chris Chambers, director of AIB Govett Management (Jersey), has seen east Asian products affected by turmoil there but has been selling "safeguard" funds, where risks are limited by investing in cash or money market instruments, and currency funds.

The pace of change can be challenging. Mr Overland says: "With the all-crimes money laundering law, the Investment Business (Jersey) Law, the recognised funds legislation update, the introduction of the euro and the year 2000, plus record levels of business in Newton's case, and it would be fair to say that people are understandably showing signs of strain."

On the whole there is optimism though there is some anxiety that, as Mr Chambers puts it: "It could go pear-shaped in Jersey and I'd be back in the City of London getting up at 5.15 every morning."

But the general belief is that growth will continue.

PROFILE
COLIN POWELL

Learning lessons from history

'We have the kind of economic performance many governments would give their eye teeth for'


Colin Powell has been at helm for 30 years — Sinead Lynch

Colin Powell, Jersey's most powerful civil servant, is due to retire at the end of the year.

A Londoner who came to Jersey after working as an economic adviser to the Northern Ireland government, he has been at the helm for 30 years, first as economic adviser to the States and since 1992 in the broader role of chief adviser.

"Jersey has changed, but relative to elsewhere it has continued to perform better," he says.

"An international traveller who lives in the island said to me that Jersey had deteriorated over the past 30 years in terms of pressure on the island and population growth, but elsewhere had deteriorated more.

"You can put it the other way round and say that Jersey continues to present a more favourable aspect than many other communities, which is why we have great pressure from people to come and live here."

Mr Powell, more than any other public figure, has helped to create the conditions for the rise of Jersey's finance industry. He points to historical lessons in defending the strategy from its critics.

"The dominance of the finance industry is almost inevitable with a small island community," he says.

"The growth industry provides income on which living standards and public services depend.

"That is not peculiar to Jersey. All islands face a difficulty in maintaining two or more growth industries competing for resources.

"In the early 17th century, when the knitting industry was dominant, the States of Jersey had to pass an edict to stop men from knitting and force them to harvest the corn.

"The island had its time back in the 1950s when it was dominated by tourism, prior to that by agriculture, and in the 19th century industries like shipbuilding were dominant."

He summarises the States' strategic objectives in a sentence: "To achieve business growth without population growth."

It is different from what mainland governments generally strive to do, but then almost everything on Jersey is different.

A recession in Jersey is a slowdown, not a period of contraction.

The island achieved gross domestic product growth of 14 per cent in 1990 and, despite a tougher period since then, it is estimated to have by at least 5.5 per cent a year for the past two years.

That growth led the States assembly last year to tighten controls on population, as had been done in buoyant periods in the past, by limiting the number of staff that can be hired from the mainland.

Says Mr Powell: "It was part of a package of measures to improve the productivity of the workforce by making more use of information technology, more training, by encouraging married women to come into the workforce through giving support for child care and by seeking to subject some parts of the economy to more competitive pressures."

The economy, he says, is a "hothouse", but he is relaxed about the stresses caused by the finance industry's growth.

"We do have higher inflation and these pressures, but at the same time we have little unemployment, balanced budgets and no public debt," he says.

"We have a strategic reserve which is near to one year's tax revenue, we are offering good job opportunities and we are maintaining a high standard of public services. It is a kind of economic performance that many governments would give their eye teeth for."

His retirement will not mean disappearance from the public scene for Mr Powell.

He will continue as deputy chairman of the new Jersey Financial Services Commission, the financial regulator, where he hopes to see the industry grow further.

"With such a large market for the things we do it is difficult to see how this industry is going to collapse," he says.

Brian Groom

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FINANCIAL SERVICES COMMISSION by Brian Groom

Living up to a high reputation

Determined to show that it has the ability to adapt to change, the island is in the middle of a new wave of legislation

Richard Syvret, the first director-general of Jersey's newly-established Financial Services Commission, insists that the island's reputation has never been higher.

"We are at the leading edge of regulation for offshore jurisdictions and we are able to stand up to even the best onshore jurisdictions," he says.

It was not always so. When Mr Syvret started as the island's commercial relations officer in 1979, regulation and legislation was under-developed. He had to overcome industry resistance to new laws on securities, trusts, bankruptcy and companies.

Now Jersey is in the middle of a new wave of legislation. Among the most important laws is the Financial Services Commission (Jersey) Law 1998, which brought the commission into being as a self-financing statutory corporate body from July 1. Before that, regulation was carried out by the States of Jersey's financial services department.

The commission is still ultimately answerable to the States, but has responsibility for the regulation, supervision, development and promotion of Jersey's finance industry. Funded by fees charged for registration and licence applications, the theory is that it will have the independence and freedom to meet the industry's increasingly complex needs. It is similar in structure and role to the UK's recently-established Financial Services Authority.

According to Mr Syvret, two reasons lay behind its creation: a feeling that this was the best way to develop Jersey's tradition of developing regulation in consultation with the industry; and the harsher economic climate of the early 1990s, which made it harder to guarantee the public resources the regulators would need.

In independent form, the commission will be free to pay the salaries it needs to attract the best professionals, in line with the financial industry norm rather than the civil service average. Jersey had not hitherto had a problem with recruitment, which was why it has been slower than the Isle of Man and Guernsey, which created self-standing commissions in the 1980s.

The commission's first chairman is Senator Frank Walker, who is also president of the States' finance and economics committee. Andrew Edwards, in his Home Office report on offshore islands, has recommended that politicians should not be involved, and Senator Walker accepts that this dual role should end.

"In a community like Jersey, there are real, tangible advantages to having a direct political connection. The Isle of Man and Guernsey have shown that over the years. But perception is becoming at least as important as the practical reality within the island and that is something we will take into account," he says.

The other commissioners are: Colin Powell, chief adviser to the States, as deputy chairman; Mr Syvret; Julian Clyde-Smith, an advocate and partner with lawyers Ogier & Le Masurier; Richard Pirouet, recently retired managing partner of Ernst & Young in Jersey; John Tibbo, a retired banker and a jurat (judge) in Jersey's Royal Court; and Andrew Winckler, former chief executive of the UK's Securities and Investments Board.

The commission will be responsible in future for regulatory aspects of affairs such as this year's Cantrade private banking scandal, in which a subsidiary of Switzerland's UBS was fined for criminal recklessness after failing to spot that an independent rogue currency trader was concealing large losses in dealings conducted through the bank.

Mr Syvret says the affair showed that Jersey was able to bring about successful prosecutions in a complex case, which was not always so in other jurisdictions, but none the less it had been a "salutory lesson" that the standing of a bank was no guarantee against problems.

Mr Syvret, due to retire at the end of the year, will be replaced by Richard Pratt, formerly director of external affairs at the London International Financial Futures and Options Exchange. Before that, Mr Pratt was a civil servant for more than 20 years, and latterly head of the securities and markets team at the Treasury.

"We must not allow our regulatory standards to slip, which would reduce confidence in the system. There are challenges, but looking back over the last 30 years this has been a community that has adapted itself to change," says Mr Pratt.

TOURISM by Philip Jeune

A first step towards unity

Millions of pounds have been allocated to developments but the industry is still unsure of where it is heading

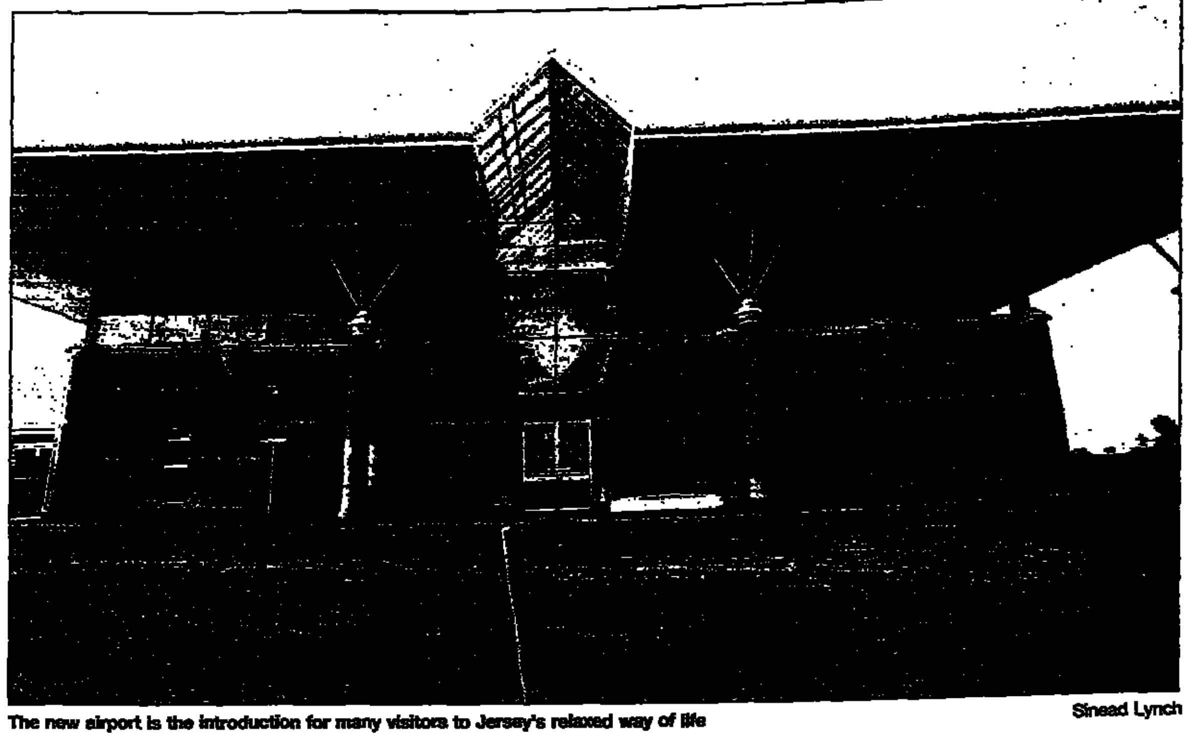
That Jersey has a strong tourism industry is undeniable. Indeed, with plans for a £40m luxury conference hotel, a "Museum of the Year" award (the second in just five years), a brand-new 564-berth marina and the world's first environmental Green Globe award under its belt, it is an industry that would appear to have a lot going for it.

On the other hand, a lack of unity between industry and government, declining visitor figures (down 7 per cent on 1997), the continuing sale of hotels to residential property developers, high transport costs and continuing debates about introducing a casino and timeshare accommodation continue to prompt much navel gazing, suggesting that the industry is somewhat unsure as to where exactly it is heading.

This uncertainty was evident at a recent industry forum where hoteliers, tour operators, travel agents, airline representatives and politicians expressed concern over many issues but fell short of identifying a plan of action for dealing with them.

If the industry lacks a sense of direction it cannot be said to lack leadership. The impact being made by Liz Jeffreys, the new chief executive at Jersey Tourism, is certainly being felt and, from most accounts, widely welcomed. It was her idea to hold the forum, a first step down the tough road of uniting the industry, government and the island itself, so that a clear vision for the future can be established.

Formerly head of marketing for the city of Manchester, Mrs Jeffreys has hit the island running and is determined not to lose momentum. "The lack of unity and differences of opinion are getting in the way of the industry's potential," she says. "I'm committed to getting everybody working together so that they can adapt and change. Our concerns are all the same. It's just that we talk a slightly different language."


The new airport is the introduction for many visitors to Jersey's relaxed way of life. Sinead Lynch

Mrs Jeffreys is also convinced that tourism should work more closely with finance and agriculture, believing that the three industries can help each other by sharing marketing and development resources.

Ask her to sum up the special appeal of Jersey to the visitor and the first phrase she turns to is "quality of life". She adds: "Coming here is like discovering an England of 20 years ago. There's a sense of individuality combined with warm hospitality and a slower and safer pace of life. This all has enormous appeal to those living hectic lives elsewhere.

"For a small island, it is also extremely well endowed," she continues, referring to the recent museum of the year award (bestowed on the island's innovative Maritime Museum), the late Gerald Durrell's world-famous Jersey Zoo, the internationally-renowned Jersey Orchid Centre and a wide range of heritage sites that include two stunning castles.

Then, there is the gleaming new Elizabeth Marina, a facility that has made waves within the island, having gone £8m over budget (mainly due to additional costs incurred in dredging the harbour bed).

For non-residents, however, it presents, for the first time, an exciting opportunity to keep a boat in Jersey waters, an attractive proposition, thanks to the island's VAT-free location at the heart of a superb cruising ground. Already, over 100 boatowners from the UK and Europe have acquired a berth, bringing a new type of high-spending visitor to the island's shores.

Mrs Jeffreys also praises the island's commitment to the environment, a policy recognised earlier this year when Jersey became the first holiday destination in the world to achieve Green Globe status. Green Globe is an environmental management programme for the travel trade that was developed in 1994 in response to the Rio Earth Summit.

Its world wide membership in over 100 countries is dedicated to improving environmental practices and increasing environmental awareness within the travel and tourism industry and this first award reflected the island's active environmental programme which ranges from clean beaches and litter-free countryside to cycling lanes and cliff paths.

Not that Jersey's tourism industry is relying on the island's beauty to ensure its survival. Many millions of pounds have recently been allocated to new tourism developments – such as the Maritime Museum – and the very active and progressive Jersey Museums Service is currently negotiating a further £3m to refurbishthe island's most prized tourist icon, the 13th century Mont Orgueil castle that towers majestically over the picturesque Gorey harbour.

Money, however, is not enough, as Mrs Jeffreys is the first to admit. "Throwing cash at our problems is not the answer. We need to get people to work together. We must achieve a shared and unified vision and the significance of this cannot be stressed enough.

"I aim to make sure that we make the most of the Jersey brand, which enjoys tremendous customer loyalty. But first we must clarify where we are going so that everyone knows what tourism in Jersey stands for."

AGRICULTURE by Philip Jeune

Higher milk yields, fewer farm units

Farmhouses are finding new roles as homes to well-heeled financiers

It could be argued that the industry still relies far too much on the Royal. Sinead Lynch

The relationship between Jersey and its agricultural industry has changed in recent years and is, perhaps, best epitomised by a recent incident in its most western parish.

St Ouen (pronounced Won) is about as rural as Jersey can get, its exposed cliff-top patchwork fields tended by farmers whose lineage goes back to Norman invaders and whose first language is still likely to be the Jersey Norman-French patois.

A tenant farmer from another parish, required to leave his accommodation, sought to relocate his herd of Jerseys within St Ouen, not far from a small village development.

However, to his amazement, he found himself opposed by hostile parishioners determined not to have the sights, sounds and smells of a dairy farm near their homes. This incident served to demonstrate all too clearly just how the agricultural industry has come to be seen within a community dominated by its thriving finance centre.

Regarded by some as a "dead" industry kept artificially alive by government subsidy, agriculture is perceived by most islanders as an effective if somewhat costly way of maintaining the island's green fields and lush pastures.

The merchant banker sweeping through the narrow country lanes in his Porsche may appreciate the beauty of his surroundings but he is less likely to be aware of the extraordinary changes that the agricultural industry has undergone to survive.

In the past five years, the number of agricultural units has fallen by nearly a fifth, yet the area of land under cultivation has hardly changed. Farms are getting bigger and, as a result, more farmhouses are finding new roles as homes to well-heeled financiers.

Two products dominate the island's agricultural industry: the Jersey and the Jersey Royal and the move towards fewer but bigger farms applies equally to herds.

In the past five years, the number of milkers has actually risen by 6 per cent to 4,382, and yields have also continued to rise, but the number of herds has fallen by a quarter to 71.

Mr Bastion believes that the industry has now stabilised and takes comfort from the fact that, as far as he knows, no one has actually left the business this year.

Large farming units have also, in the main, meant modern units and Mr Bastion talks of an industry "light years ahead" of its competitors.

This applies especially to the growing of indoor tomatoes, where fully computerised glasshouses, total biological control and sophisticated packing lines result in 80 per cent of sales going direct to the demanding UK supermarket chains (who also take virtually every other crop that the island produces).

It could be argued that the industry still relies far too much on the Royal, a crop worth £28m (compared with £8m for glasshouse tomatoes and just £3m for all flowers).

However, the unique quality and brand image of the Royal still commands a healthy price premium, one that Jersey farmers will maintain as long as they are able. "We can grow just about anything in Jersey," explains Mr Bastion, "but the difficulty is in finding a niche market."

With a staff of 65, many of them specialist advisers, the department itself could be criticised for not slimming down too.

Mr Bastion, however, believes the department's annual £7m budget (which includes £4.5m in direct and indirect aid and subsidies) is well spent when the end result is his proud boast that "you can safely eat anything we produce".

"This is one of our strongest selling points," he adds, "especially as this is a very ethical business at the moment."

Meanwhile, the island's fishing industry is enjoying a small renaissance with a licensing scheme, improved relationships with French competitors and an acceptance of the need to manage jointly stocks all playing a part in developing a measure of long-term security.

TRUSTS AND CORPORATE SERVICES by Brian Groom

Law speeds the rate of change

A new wave of legislation aims to ensure that only the fittest and best companies will remain in business

Jersey's trust and corporate service sector, in which 200 companies control an estimated £100bn in assets – more than a third of the money managed by the island's finance industry – is changing rapidly and a new wave of legislation will give further impetus to its transformation.

The industry has already seen many trust companies taken over by larger overseas financial institutions, which have generated more business for their new acquisitions, creating demand for trained staff and more office space.

Now come the Investment Business (Jersey) Law, the Financial Services Commission (Jersey) Law, the planned Proceeds of Crime (Jersey) Law and, most significantly, the proposed Fiduciary and Administration Business (Jersey) Law, which aims to ensure that only the fittest and best trust companies remain in business.

"The combined effect of these laws on small trust companies will make life difficult, if not impossible, for some," says Edward Clucas, chairman of Herald Trust and president of the Jersey Association of Trust Companies. He welcomes the authorities' efforts to create a high-quality regulatory framework.

The fiduciary law will ensure that in order to be licensed companies will have to fulfil a stringent set of criteria including a "four eyes" principle, in which at least two qualified professionals peruse each transaction, an annual audit, a minimum paid-up share capital, a minimum cash balance equal to three months' running costs and professional indemnity insurance.

There will be a greater requirement for staff to be properly trained with examinations, diplomas and certificates of competence. The Financial Services Commission will have the power to revoke or suspend the licence of any trust company that fails to meet the standards.

The result is likely to mean mergers between smaller companies, or acquisitions by larger ones. Already a large amount of trust business is done by international accountancy groups, lawyers and banks.

Smaller trusts are seen by many as a problem area for Jersey's finance industry, occasionally resulting in brushes with the law. The latest involves a 64-year-old trust company director, Raymond Eric Norman Bellows, who will appear in court in December facing fraud charges involving alleged losses of £5.1m.

Many trust companies have already been taken over

The business has two related elements – the creation of trusts by individuals for tax planning or protection of personal or family assets, and commercial trust and company structures used for a variety of transactions, including securitisation of debt, and offshore employee benefit programmes.

Many exploit the fact that Jersey has no capital taxes, inheritance taxes, gift tax or wealth tax, although there appears to have been a decline in high net worth individuals using Jersey for their personal affairs, brought about by a tightening of anti-avoidance legislation in the UK and US.

"There are still lots of reasons though why someone might want to set up an offshore trust, such as general asset protection, inheritance planning or probate reasons," says Ken Rayner, senior manager of Royal Bank of Canada's Jersey trust company.

Wealthy people in South America often wish to hide their assets to avoid kidnapping attempts, while those in the Middle East use trusts to avoid laws which stipulate their money must be left to their sons, not their daughters.

Then there are capricious regimes. Patricia Littlewood, managing director of Bailhache Labesse Trustees, says: "We have clients in Africa who have lost everything once and don't want it to happen again."

Corporate business, however, is increasing. Commercial trusts and corporate vehicles are often used for employee share option schemes or expatriate pension schemes and structured deals such as sale and leaseback and off-balance sheet financing.

Vehicles include the exempt company, which pays a £600 annual fee instead of tax, and the international business company, which typically pays 2 per cent tax on its international operations and can effectively choose in which jurisdiction it pays most tax.

Tony Pitcher, director of Ernst & Young's Jersey trust company, says the quality of Jersey's legal system is a big factor in attracting trust business. Trusts often generate disputes over the way assets are used, and a fair and skilled legal system helps to resolve them.

David Boleat, director of Abacus, says long-term personal relationships with clients are the key to success.

Most believe the business will continue to grow, though perhaps at a slower rate. "It is capable of infinite expansion provided the skills are there," says Mr Clucas.

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RECRUITMENT

RICHARD DONKIN

Fighting the talent war

Big companies must review HR strategies if they want to retain promising employees

You can always rely on the US sense of the dramatic. What those in the UK might have called the impact of a labour shortage has been put through the management mangle, restyled, reinterpreted and relabelled to describe the competition for increasingly scarce executives. They call it "the talent war" and it was one of the big topics of discussion at the Hay management consultants' annual international conference in Barcelona last week.

The ability of companies to attract and retain good employees differentiates the world's most-admired companies from the rest, according to a study carried out by Hay for Fortune magazine.

The study highlighted personnel policies such as the evaluation of leadership, teamwork and people management skills among top executives at JP Morgan. Those who perform best in these areas get the best share options awards. Toyota scored highly because of its commitment to retraining employees, and Bristol-Myers Squibb, the pharmaceutical company, was admired for its use of all-round, or 360 degree, assessments of managers.

But start-up companies were still drawing away some of the most promising executives who saw their promotion prospects stifled in big companies, warned Vicky Wright, Hay's global knowledge director. "The new competitors are winning the talent battle and the established companies need to fight back," she said.

Social awareness among large companies is an emerging issue

Just how seriously some companies are taking this threat is illustrated by International Business Machines' creation of a "vice-president of talent". Tom Bouchard, senior vice-president of Human Resources at IBM, said the post acknowledged the need to ensure an attractive working environment. Mr Bouchard is the kind of strong-jawed no-nonsense executive that could have been plucked straight from the IBM hothouse so it was telling to hear his admission that "work/life balance is the single biggest employee issue we have around the world".

Christopher Bartlett, professor of business administration at Harvard University, told delegates that companies needed to reappraise the role of the human resource director. "For 75 years sitting on the right hand of the CEO was the chief financial officer," he said. The challenge now was to give a pivotal role to those who could manage the "scarce resource" of people. "The HR function has to elevate itself to the role the CFO once had," he said.

Prof Bartlett, with Sumantra Ghoshal of London Business School, has highlighted recruiting strategies at Microsoft, whose in-house recruiters use headhunting techniques to identify and attract talented individuals. "It would never outsource this kind of activity," he said.

He contrasts the focused recruitment strategies of companies such as General Electric, Procter & Gamble and Motorola with the devolved recruitment policies of some companies where line managers might advertise vacancies in their local newspapers, thereby limiting the scope of their search.

Prof Bartlett is convinced that in order to prosper, companies must switch their emphasis from "strategy, structure and systems" to what he calls "purpose, process and people". Too many people, he said, "feel as if they are working for a company, not an institution that is going to give meaning to their life".

Gary Hamel, visiting professor of strategy at London Business School, warmed to the theme. "How many employees wake up and the first thought that comes into their mind is 'yeah, shareholders'?" he said.

The growing social awareness among large companies appears to be one of the emerging issues among business theorists. Rosabeth Moss Kanter, professor of business administration at Harvard Business School, said the school had listed "social enterprise" with globalisation, entrepreneurship and technology as its four dominant study themes.

"The relationship between business and the rest of society is increasingly important for several reasons. As governments all over the world seek new opportunities in which the private sector can play a bigger role, there is a turning to business not simply to create wealth but to help produce a better society," she said.

Ms Moss Kanter is not too impressed with the merger route taken by many companies which, she said, "feeds the egos of managements who want to build empires. Building organisations is hard work and deal-making is easy in comparison."

She seemed more sceptical about the idea that HR specialists could lead business strategies. The potential was there, she said, but HR people had been seen as administrators rather than as the creators of new strategies in the past. "I have heard talk of strategic HR for nearly 20 years and I have seen very few companies where that has been true," she said.

She might think differently if she were to talk to people such as Clive Morton, HR director of Anglian Water Services, whose latest book, *Beyond World Class* (Macmillan Business, £25), demonstrates a deep understanding of how HR can underpin corporate strategy.

So what kind of people should companies be encouraging? Prof Hamel says companies should set up training programmes to help people to push through change. He named John Patrick, who promoted electronic commerce at IBM, as an example of an executive who found ways to develop his ideas in the company.

There appeared to be a consensus that company chiefs needed to improve the way they managed and encouraged talented individuals. Prof Bartlett said companies needed to "release the entrepreneurial hostages that have been held in company hierarchies". Too many company heads, he said, were still wedded to the idea of the chief executive as corporate hero that harked back to the early days of General Motors and Dupont. Businesses, he said, were changing too quickly to expect chief executives to continue providing this style of leadership.

But he warned that the empowerment of employees needed to be properly managed and could not succeed without self-discipline. "For a lot of companies empowerment has become abandonment," he said.

But companies should not abandon empowerment. Ms Moss Kanter stressed its underlying values. "When people have the opportunity to act on their own initiative, to shape their own work and feel they are rewarded for making a difference, they can do great things," she said. "That has been true throughout the ages."

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WORKING BRIEFS

Oxbridge men dominate FTSE 100 companies – NBI report

A typical board director of a FTSE 100 company is a 58-year-old man with a university education, according to research from Norman Broadbent International. About a third of these board members have a degree from Oxford, Cambridge or Harvard, some 38 per cent had early careers in accountancy and financing, and a quarter of them have international experience. But only 4 per cent of them are women, says the report, written by Elisabeth Marx, an NBI director.

The report makes a comparison between the FTSE 100 boards and those listed as Britain's most admired companies by Management Today and Loughborough Business School. Boards in the most admired lists, says Ms Marx, are larger, with a higher proportion of non-executives, a wider variety of backgrounds, and greater international experience; they also have more women although, at 6 per cent, the proportion of women remains low. "The findings suggest a pattern between board diversity and corporate reputation," says Ms Marx.

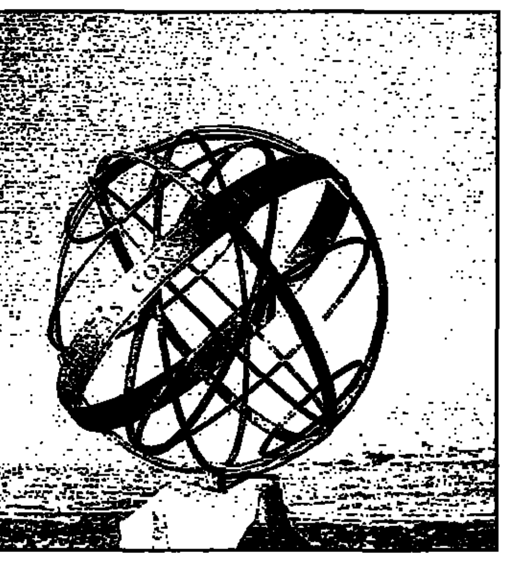
Details: Rachel Boyd, fax 0171 629 9900

Interim manager

Interim management, the practice of placing temporary managers in companies, either as a stop-gap or for a specific project, has become a well-established option for companies seeking greater management flexibility. But the practice is not widely understood, either by freelance managers or by companies that could usefully employ them.

A new book, *The Interim Manager*, by David Clutterbuck and Des Dearlove, seeks to demystify the practice. Drawing on interviews with interim managers, case studies and the work of consultants, such as PA Consulting's interim management practice, the book provides useful analysis, guidance and much-needed clarity. *The Interim Manager is published by Financial Times Pitman Publishing, £19.99. Both this book and* Beyond World Class, *mentioned opposite, can be ordered through the FT Bookshop, tel 0500 500 635 in the UK or +44 181 324 5511 if ordering from overseas. E-mail: bid@mail.bogo.co.uk*

BANKING FINANCE & GENERAL APPOINTMENTS



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- Particular emphasis on the preparation of reports which will lead to inward investment into Cuba.
- Intellectually first class. Highly analytical and well-rounded, possessing integrity and personal authority. Strong communication skills, especially in report writing and presentation.
- Likely to have had substantial in-depth experience in Cuban economic and political affairs. International perspective and contact network essential. Must be fluent in Spanish and English.
- Possessing a high level of drive and energy necessary to succeed in a demanding and intellectually stimulating environment.

Please apply in writing quoting reference 7365 with full career and salary details to:
Deborah Maxwell
Whitehead Selection
11 Hill Street, London W1X 8BB
Tel 0171 290 2045 Fax 0171 290 2138
www.whiteheadselection.co.uk

Whitehead SELECTION

A division of Whitehead Mann Ltd, a Whitehead Mann Group PLC company

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NY based commodity & financials trader with broad background in physicals & derivatives and extensive experience and relationships in emerging mkts seeks employment or representation agreement. Can travel or relocate. French/English speaking. Phone 212 397 3304

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SALES AND TRADING CREDIT RISK MANAGER

A truly global working environment

Our Credit Risk Management team based in Zurich is seeking a Sales and Trading Credit Risk Manager.

You take the responsibility for managing credit exposures and making credit decisions on transactions involving sales and trading products and counterparties. The role requires a confident, decisive person with exceptional transactional analysis and credit analysis skills. You will have the opportunity to visit clients.

Excellent English language skills, a first class education and several years experience in similar positions in investment banks are required. If you have this experience and these qualities, and thrive in a dynamic working environment, please send your Curriculum Vitae to

CREDIT SUISSE FIRST BOSTON, Mrs Bettina Küttel, FMHS 3, P.O. Box 900, 8070 Zurich (Phone 0041-1 332 73 38)

MARTIN BROKERS

(UK) PLC

(Regulated by the Bank of England and the Securities and Futures Authority)

Martin Brokers is one of the wholly owned subsidiaries of TRIO Holdings PLC, a listed Public Company. It is one of the oldest money broking firms in the City, with a one hundred year history in the sterling market, and in recent years a dominant market share and excellence in forward foreign exchange and arbitrage.

Martin Brokers Sterling page is arguably the most accessed broker page on the Reuters system

RPMA

RPMA is a recognised Sterling Market "industry benchmark"

Martin Brokers, and its parent company, wish to enhance their substantial commitment to the Sterling market for 1999. Accordingly EXCELLENT OPPORTUNITIES EXIST, only for outstanding candidates, to join their London team at a senior level.

SENIOR and EXPERIENCED STERLING BROKERS

We have vacancies for senior brokers in inter-bank Cash, FRA, and Swaps. We also wish to continue to expand our successful Corporate and local Authority team. We require leader/s capable of taking senior role/s.

Please respond in very strictest confidence to David Hagan, Executive Chairman of Trio Holdings:
TRIO Holdings PLC, 4 Deans Court, London EC4V 5AA
0171 489 8033

Financial Public Relations Manager
Central and Eastern Europe

Citigate Dewe Rogerson is one of the leading financial public relations company operating worldwide. Due to our growing success in the Central and Eastern European market, we now seek a manager to work on a variety of client accounts, mostly of Russian origin.

You will be primarily responsible for preparing and running all aspects of accounts including the marketing and communication of privatisations, public information campaigns and investor relations.

Although based in London, the position will require you to travel extensively throughout Russia and neighbouring countries and work closely with designated teams.

Applicants must be educated to degree-level (or equivalent) and be bilingual in Russian. You will have proven professional knowledge and experience in all aspects of financial marketing and communications in Russia and possess extensive personal and business contacts to ensure credibility at the highest levels. A sympathetic understanding of the culture and business practices of the country is essential.

In return you will have the opportunity to work in a truly international and dynamic environment and enjoy a competitive salary and benefits package.

Interested applicants should send a concise curriculum vitae outlining current salary details to, Graziella Swan at Citigate Dewe Rogerson, 3 London Wall Buildings, London Wall, EC2M 5SY.

Applications to arrive no later than 30th December 1998.

Citigate Dewe Rogerson

SALES TRADER

LONDON BASED

FOR ITALIAN EQUITIES TO UK & INTERNATIONAL CLIENTS

Preferred candidates will possess 2-3 years experience sales trading to UK and/or NON-UK clients. This is an opportunity to join a well established team of Italian equity specialists and help development of the London branch. Apart from experience we are looking for highly motivated and entrepreneurial candidates. Remuneration is commensurate with experience and skills.

Basic salary + Bonus.

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The FT can help you reach additional business readers in France. Our link with the French business newspaper, Les Echos, gives you a unique recruitment advertising opportunity to capitalise on the FT's European readership and to further target the French business world. For information on rates and further details please telephone:
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ACCOUNTANCY APPOINTMENTS

Financial Controller - *Hotels*

Dubai, United Arab Emirates – Excellent Expatriate Package

■ Dutco Hotels LLC is the owner and operator of three fivestar and fourstar hotels in the Emirate of Dubai including members of the Leading Hotels of the World and Relais et Chateaux, with a combined 700-room capacity and amenities including a marina, golf course, shooting club and mountain resort

■ We have been retained to assist with the recruitment of a Financial Controller, a new position in the company, to take charge of the accounting function and assist the senior executive team on the financial aspects of treasury management, capital projects, insurance and legal affairs etc

■ Reporting to the Director of Finance, and with responsibility for managing the financial controllers of three hotels in a computerised environment, functional responsibilities will include budgeting, cash flow planning and reporting, capital expenditure management, consolidation of hotel group results and preparation of annual financial statements

■ Suitable candidates will be ambitious accountants who are already in a management position with an international hotel group, demonstrating a high degree of technical competence and experience of working in an international environment

■ Candidates should have a Chartered Accountancy or similar qualification, be familiar with Lanmark and/or Fidelio hospitality information systems and have experience of developing and/or implementing financial and operational policies and procedures in the hospitality sector

■ Personal qualities necessary for this demanding position include team leadership, decisiveness, an ability to communicate effectively at all levels within the group and a pro active attitude towards business improvement. Fluency in spoken and written English is essential.

■ The attractive tax-free salary will be supported by generous expatriate benefits and allowances including company pension plan, fully furnished accommodation, food and beverage allowance, use of hotel facilities and 33 days annual leave with return air fares to home base.

Interested candidates should write enclosing a detailed curriculum vitae, with salary details and outlining their suitability for the position to: Executive Recruitment Division, Ernst & Young, PO Box 9267, Dubai, UAE quoting reference SJW/16FT. Applications may be submitted by fax to ++ 9714 314989. The closing date for receipt of applications will be 12th December 1998.

ERNST & YOUNG

European Finance Manager

IT Environments

Holland/Surrey c. £40,000 + benefits

■ Our client, the UK subsidiary of a NYSE-Listed Company, is a world leader in design and manufacture of customised, technical furniture solutions for high-tech workplaces. With an impressive growth record, over 40% annually over the past four years, and exciting plans for expansion, it offers a fantastic opportunity for high calibre individuals wishing to align their career to a dynamic organisation.

■ Reporting to the VP Europe & Asia, you will be responsible for setting up operations to include effective controls and reporting as well as staff management. Initially this will involve a period in Holland completing the first phase. After this you will be the chief financial officer based in the UK with overall responsibility for all the non US business.

■ This role will suit ambitious individuals motivated by the prospect of joining an organisation at an exciting developmental stage, and who will view it as part of a challenging long term career move. A qualified accountant, you will have around 5 years' experience, ideally including distribution and manufacturing in an international arena. Experience of setting up controls and reporting systems is essential. A positive management style combined with the intellectual agility to work with senior executives and grow into the 'bigger' role are prerequisites for this key position.

To be considered for this position, please send your curriculum vitae with current salary details and an explanation of how your experience meets the above requirements to Gemma Jenkin, Ernst & Young Executive Search & Selection, Rolls House, 7 Rolls Buildings, Fetter Lane, London EC4A 1NH, quoting reference GJ303. Tel 0171 931 2967. Fax 0171 931 1022 or e-mail:gjenkin@cc.ernsty.co.uk

ERNST & YOUNG

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European Financial Controller

London **£ 70,000 + package**

One of the largest names in the property business with a reputation for innovation and excellence, our client combines tremendous development and operational experience with financial strength and is committed to global growth. Continued expansion has created an opportunity for an ambitious and energetic finance professional that can meet the challenges of working within this fast moving, entrepreneurial organisation.

The Role:

- Direct and support the European finance team through a period of planned growth and development.
- Establish best practice in financial processes and controls throughout the region and provide business support to country controllers.
- Work closely with the Finance Director to create infrastructure and formulate strategies designed to improve operational effectiveness and maximise profitability.

The Candidate:

- Graduate qualified ACA with a minimum 7 years PQE, with a solid track record in financial management and knowledge of US GAAP.
- Flexible, hands-on approach and sharp mind, combining strong technical expertise with a commercial perspective.
- Ability to fit into a small dynamic team with a mandate to achieve aggressive growth.

Please write in confidence, with full career and current salary details, quoting reference SJW/2906

Tel: 0171 499 8811 Fax: 0171 499 6725
e-mail HollisS@odgers.com

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Odgers Executive Selection
7 Curzon Street, London W1Y 7FL

ODGERS EXECUTIVE SELECTION — A DIVISION OF ODGERS INTERNATIONAL

RS

HEAD OF FINANCE, UK

c. £80,000 plus bonus and options **EAST MIDLANDS**

RS Components is the main operating company of Electrocomponents plc, one of the top three most admired British companies. With a turnover in excess of £400m, the UK company is the market leader in the electronic/electrical/mechanical components distribution sector. This has been achieved through investment in state-of-the-art, highly automated distribution centres, sophisticated technology and information systems, and a focus on customer service that differentiates RS from its competitors. Always at the leading edge of its sector, RS has recently restructured along matrix lines to support increasingly segmented distribution channels underpinned by the implementation of SAP across the entire Group.

An internal move has created the need for a new Head of Finance to join the UK Executive Team and contribute to the further development of the business. In addition to traditional financial accounting duties, you would be encouraged to play a broader role: analysing and commenting on relevant management information; questioning, challenging and supporting operational colleagues; driving projects that underpin the processes of change, development and diversification. This will prepare you for career progression into operational line management.

The Position

- Part of the UK executive management and group-wide financial teams with a team of 120 and budget of £5m.
- Formally responsible for budgeting, reporting, control and audit compliance.
- Support the business through provision and analysis of relevant management information.
- Proactively work with colleagues to question, challenge and contribute to business initiatives.
- Provide a financially-oriented, added value based commercial focus.
- Drive the continued development of business relevant financial and operational systems.

The Requirements

- Young qualified accountant, ideally MBA, with track record of progression and achievement.
- Evidence of commercial input to strategic direction and operational improvement.
- Possibly, exposure to international work and experience of a non-financial role.
- Familiar with an environment of change, matrix management, flexibility.
- Highly commercial, a business thinker, operationally astute, interested in performance drivers.
- Excellent interpersonal skills, proactive, questioning, constructively challenging, supportive.

Please send your CV with current salary details to: Mark Hartshorne, Korn/Ferry International, Concorde House, Trinity Park, Bickenhill Lane, Solihull B37 7ES, quoting ref: 18942A/04. Or send by fax on 0121-782 2524 or by e-mail to kfs-birmingham@kornferry.com Internet Home Page: http://www.kfselection.com

K/F SELECTION

A DIVISION OF KORN/FERRY INTERNATIONAL

صكتا من الاهل

Challenging careers for financial specialists in the European transport sector.

Excellent packages — based Amsterdam

At GE Capital, part of General Electric - one of the world's largest and most successful companies, we encourage ambition, and it's our ambition to be the best. It's helped us become one of the world's foremost financial services businesses, with assets of $255 billion earning $3.25 billion in net income last year. We're growing at a phenomenal rate - in recent years we have acquired, on average, one company every fortnight. So no matter how aspirational your plans, we can match them.

One of GE Capital's key businesses is TIP, a highly successful and market leading trailer rental and leasing company operating in Europe. Following the recent acquisition of CTR plc, TIP is integrating all accounting, treasury and tax activities into its European Shared Financial Services Centre in Amsterdam. The centre services 14 countries and expansion has created a number of exciting opportunities in the finance area. So if you've got the energy and enthusiasm to rise to the challenge, a career at GE Capital is everything you could ask for.

Senior UK Regional Accountant
(ref: 9801)

Reporting to the Manager of European Operations Accounting, you will be responsible for periodic financial accounting and reporting (both management and statutory), providing support to the regional Finance Director and Operations Management, as well as assisting in the preparation of consolidated European accounts. Other responsibilities involve the integration of new acquisitions and due diligences, optimising automated processes and systems, tax restructuring, tax audits, developing cost control projects, supporting budgeting and estimating processes and ad hoc projects.

A qualified accountant, probably with a business/economics/engineering degree, you must have at least 5 years' work experience gained with one of the Big Five and/or in industry. Experience with US GAAP would be a distinct advantage.

Treasury Accountant
(ref: 9802)

Reporting to the European Treasury Manager and working closely with the Corporate Treasury in the US and our tax advisors, you will be responsible for the development and implementation of funding strategies. You will also maintain records for funding entities, monitor borrowing limits against funding agreements (taking action where necessary), and control cash management and planning. Other responsibilities include the integration of new acquisitions and supporting due diligence activity, tax restructuring and tax audits as well as advising on business, supporting budgeting and estimating processes and ad hoc projects.

A qualified accountant, probably with a business/economics/engineering degree, you will have at least 4/5 years' work experience gained with one of the Big Five and/or in industry. Experience with US GAAP would be a distinct advantage.

Tax Accountant
(ref: 9803)

Reporting to the European Tax Manager, you will be responsible for the preparation and review of Pan-European tax returns, co-ordinating with outside tax advisors and auditors, ensuring tax balances are properly reflected in balance sheets and profit and loss accounts for all legal entities, performing related analysis and maintaining policies and procedures. You will also be involved in the structuring and integration of new acquisitions and support due diligence activity, tax planning, restructuring and tax audits, be an advisor to the business, support budgeting and estimating processes and various ad hoc projects.

A qualified accountant, probably with a business/economics/engineering degree, you will have at least 4/5 years' work experience gained with one of the Big Five and/or in industry. Experience in either tax or auditing is required, although having both would be an advantage.

Finance Quality Process Management
(ref: 9804)

Reporting to the European Financial Controller, you will drive the completion of the transfer of a number of countries' accounts receivables systems to a new Pan-European standard. You will be responsible for training and coaching staff and users of the system, highlighting issues and helping to develop action plans, supporting risk analysis, leading and supporting ongoing process improvement projects, in particular the development of Pan-European automated cash allocations.

Candidates should hold a business/economics/engineering/IT related degree and possibly an MBA or an accountancy qualification, and have at least 4/5 years' work experience. Thorough IT systems knowledge and skills, in particular accounts receivables systems are also essential. You should also be familiar with collections, cash applications and billing issues, preferably on a Pan-European basis. Finally, you should have a strong quality and process mind set.

Senior Business Analyst
(ref: 9805)

Reporting to the Manager of Business Analysis, you will be responsible for providing analysis for the Comprehensive Monthly Financial Reporting Package, assisting in developing and generating key weekly operational business reports and dash boards, modelling which will support key business forecasting, support Corporate (US) reporting & budgeting, assist in identifying systems issues and improving data warehouse reporting capabilities and the quality of analytical and planning processes. You will also help identify areas for improvement of operational effectiveness and productivity.

Candidates should hold a business/economics/accounting related degree and preferably an MBA or an accountancy qualification. You should also have at least 3/5 years' work experience and the ability to manage multiple projects. Finally, you must have a quality mind set and excellent PC skills (Excel, PowerPoint, Windows etc.).

For all positions, we are looking for highly motivated, self-starters, used to taking the initiative. Excellent analytical skills, diplomacy and the ability to communicate effortlessly on all levels, as well as a high degree of flexibility, are all essential qualities. Candidates should also be fluent English speakers and be prepared for some international travel. Given the world wide reach of GE Capital, additional language skills would be beneficial.

These are excellent entry points into one of the world's most successful companies. After an initial 18-30 month period in these roles we expect successful applicants to move into equally challenging areas within the company such as finance, tax or other business disciplines. If you are interested in these opportunities, please write to Frank Van Steenis, enclosing an up-to-date CV quoting the appropriate reference to:

GE Capital - TIP, Rivierstaete, Amsteldijk 166, 1079 LH Amsterdam, The Netherlands.

Alternatively, you can call Frank, in confidence, on +31-20-504 1690.

USA*

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OUTSTANDING OPPORTUNITIES IN A CHALLENGING ENVIRONMENT

We are currently recruiting for a number of high calibre individuals to join an exceptionally dynamic organisation at an exciting and crucial period in its development.

Solihull, West Midlands

Transco, with a turnover in excess of £3 billion, is a major division of BG plc, a blue-chip organisation responsible for the transportation of natural gas. Due to the de-regulation of the industry and the recent introduction of competition, Transco has undergone a major structural and cultural metamorphosis.

Business Risk Manager - c£50,000 + F/E Car + Bens

Ref: T1001

You will be responsible for managing the risk management and control assurance impacting at divisional and group level, in line with corporate governance best practice. This will ensure the continued integrity of the control frameworks and shareholder value.

You will be:
- experienced in using risk management techniques to enable management to increase shareholder value;
- assertive, but diplomatic, with an ability to influence senior management and directors;
- experienced in a major organisation; preferably blue-chip, with an analytical and logical approach, with the ability to facilitate effective decisions.

Billing - Accounting &Controls Manager - c£50,000 + F/E Car + Bens

Ref: T1002

You will be responsible for all accounting and information services associated with the highly complex billing process, also for development and maintenance of accounting systems, and overseeing the operation of effective internal controls. You will play a major role in a team of 600 people.

You will have:
- accounting experience gained in the utility, petrochemical or communication industries;
- responsibility for establishing an effective communication channel with the audit function ensuring that satisfactory system assurance can be achieved;
- experience of preparation of statutory accounts and implementation of financial controls.

Business Finance Analysts - £30-40,000 + Car + Bens

Ref: T1003

Working as part of a small specialist team you will be expected to make a significant contribution in the development of responses to a wide range of strategic issues including major investments, contracts, business acquisitions, disposals, joint ventures and commercial policy.

You will have experience in all or some of the following:
- corporate finance projects preferably including joint ventures;
- capital expenditure and investment analysis;
- financial appraisal and modelling techniques;
- analysis and consultancy within a major accountancy practice or FTSE 100 company;
- implementation and exploitation of Activity Based Costing

Business Risk Analysts - £30-40,000 + Car + Bens

Ref: T1004

Reporting to the Business Risk Manager you will assist in providing specialist support to all departmental teams and managers, covering risk management and control assurance processes and will monitor the effectiveness of those processes and all major risks.

You will have:
- experience of leading internal or external audits of large companies' risk and control frameworks;
- business continuity planning experience;
- strong interpersonal skills;
- a logical and analytical approach to multiple assignments;
- a desire to be mobile as your brief will be on a multi-site basis.

In return Transco offers highly competitive packages including a high basic salary and many excellent benefits including wide-ranging career opportunities within the blue chip environment of BG plc.

Interested candidates should apply quoting the relevant reference number to Tony Gleeson BA CA or David Greenwell at Greenwell Gleeson Associates, Executive Division, Lancaster House, 67 Newhall Street, Birmingham B3 1NQ.

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c. £90,000 package plus benefits — *Diversified Retail and Services Group* — *Midlands*

Chief Financial Officer

Successful, rapidly developing c. £200 million Group with a portfolio of both retail and service businesses throughout the Midlands seeks an enthusiastic finance professional to provide proactive guidance and control. Real opportunity to contribute to the commercial success of an established, profitable business.

THE ROLE
- Reporting to the Chief Executive. Key member of the senior management team. Responsible for the financial management and performance of the Group.
- Provide tight and effective financial guidelines to each subsidiary. Close involvement in IT, property and strategic management.
- Manage a range of external advisors. Establish close and effective relationships with senior operating managers.

THE QUALIFICATIONS
- Qualified accountant with a record of financial management in a decentralised commercial group. Previous retail and IT experience advantageous.
- Strong technical accounting skills, having introduced and managed effective financial controls in a variety of different environments and cultures. Able to bring analytical rigour and commercial insight to wide-ranging operational and business issues.
- Mature and determined with excellent managerial, interpersonal and communication skills.

Leeds 0113 230 7774
London 0171 298 3333
Manchester 0161 499 6700

Selector Europe
Spencer Stuart

Please reply with full details to: Selector Europe, Ref. FMW/28727-2/118, Adlington Court, Greencourts, 333 Styal Road, Manchester M22 5LG

DIRECTOR OF AUDIT AND RISK MANAGEMENT

£ EXCELLENT PACKAGE — **SURREY BASED**

An exceptional opportunity to join a £1.7 billion turnover international Group currently going through a period of strategic, operational and managerial change which will create conditions for sustained and profitable top-line growth. The Group's activities include manufacturing and distributing electrical and plumbing building products, security printing and aluminium extrusions. The Group aims to grow significantly in all its markets.

THE POSITION
- Provide top level leadership and direction to a newly integrated risk management and internal audit team in order to add significant value to the business.
- Develop, implement and reinforce a coherent risk management and audit methodology throughout the Group.
- Develop a risk management culture in order to ensure that potential risks are identified and managed appropriately on behalf of the Board.
- Ensure that the Group complies with regulatory requirements, working closely with external auditors.
- Involved directly with audit and risk management reviews, supported by a small central team.

THE QUALIFICATIONS
- Commercially oriented professional with experience of working in an international, multi-site manufacturing business.
- Used to working effectively with all levels of management.
- Hands-on management style, with strong presence and excellent communication and influencing skills.
- Dynamic and energetic individual with the ability to significantly add value to existing activities.
- Exposure to broad audit and risk management issues in a diverse environment.

Candidates should send details of career to date and current remuneration, quoting ref 11C2 to: Grandison Selection, 5 Aldford Street, London W1Y 5PS.

GRANDISON SELECTION
THE SELECTION DIVISION OF IAN JONES & PARTNERS LIMITED

FINANCE DIRECTOR - EUROPE

Switzerland or Germany — **Equivalent circa £70,000 package**

Our client, a UK plc, is a leading IT services company providing consultancy, systems development, training and recruitment. The business has a turnover of over £250m and is highly profitable and cash generative. It has operations in the UK, Continental Europe and the USA.

This is a new appointment, reflecting the growth and expectations for the group's operations in Continental Europe. The culture is marketing led, the structure is decentralised and control is exercised through rigorous financial reporting to the group HQ in London. The person appointed will work closely with the MD - Continental Europe and will be responsible for the finance function in four European countries ensuring the integrity of the financial reporting to London.

Specifically the person will assume responsibility for:
- the provision and interpretation of accurate management information
- budgeting and forecasting together with comprehensive performance analysis
- management, motivation and development of the Finance team
- legal, fiscal and payroll matters associated with the provision of people skills across several European countries.

The applicant will have an outlook that is pan European and commercial and be a graduate and professionally qualified with up to ten years' post qualification experience. Fluency in English and German is essential and a working knowledge of French would be an advantage.

Please write with full CV, including salary history and daytime telephone number, quoting reference 1791/FT, to: Dick Phillips ACIS, Phillips & Carpenter, 2-5 Old Bond Street, London W1X 3TB. Telephone 0171-493 0156.

Phillips & Carpenter
Search and Selection

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Preferred candidates will have a minimum of 5 years experience and be qualified to international standard including the collection and control of the operational financial statements, the submission of monthly financial reports and forecasts, preparation of the annual report and the development of management tools in order to optimise financial results. The issue of VAT statements and presentation to the relevant legal authorities.

The roles encompass excellent communication and man-management skills, strict cash flow management, financial field experience and the training of company personnel in operational financial procedures.

A knowledge of the French language would be advantageous.

Please reply with current resume to:
Pierre Raskin, Director of Personnel, Sodexho Remote Site Management,
B.P. 100, 78883 Saint-Quentin-Yvelines Cedex, France
Fax: +33 1 30 85 50 36

International Internal Audit

Senior or Manager Level

Paris or New-York

A major international French group wishes to strengthen its Internal Audit department with several appointments at Senior or Manager level. The department is responsible for carrying out operational audits in the Group's distribution and manufacturing subsidiaries in Europe, Asia, and North and South America. A travel level of up to 40% can be envisaged.

Candidates should be qualified accountants with 2-6 years experience in either a major audit firm or in the finance or audit department of an international group. They should preferably be of English mother tongue, with fluency in French and, if possible, another language.

Please send a detailed CV to Nicholas Angell & Company, Executive Search Consultants, 120 Old Broad Street, London EC2N 1AR.

NICHOLAS ANGELL
EXECUTIVE SEARCH CONSULTANTS

■ This company is a $6bn US-quoted industrial group, manufacturing and marketing a wide range of capital equipment. Many of its products have established market leadership with a top three position in Europe, North America or the Asia Pacific Rim.

■ The Controllers are part of a new international executive team, responsible for evaluating financial and management information and for recommending and implementing actions, to achieve and maintain competitive advantage in a dynamic and exciting marketplace.

■ You may be a qualified accountant or a controller with extensive international experience gained in a "blue chip" global manufacturing environment. Key skills include financial analysis, business planning, management reporting coupled with the ability to influence management and drive through change.

■ Familiarity with standard financial, database and spreadsheet packages is essential. Knowledge of or the willingness to learn French, Italian, Spanish or Portuguese is a distinct advantage.

■ Prospects of building an international career are excellent. Applications from outside the UK are welcome.

■ *Please send your CV, quoting current remuneration and ref. 2405 to: Stephen Newman, Theaker Monro & Newman, Hill House, 67-71 Lowlands Road, Harrow, Middlesex, HA1 3EQ (fax. 0181 423 4203/email: s.newman@intersearch.org). All replies will be handled in strict confidence.*

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General Manager - Finance

Dynamic Environment - Innovative Developments

Manchester

£65-75,000, plus substantial benefits

Their products and services enjoy a global reputation for innovation and quality. The environment is creative, progressive, challenging and rewarding. Against this background our client now seeks a General Manager - Finance for one of its high profile operations.

Based in Manchester and responsible for certain other UK locations you will be a key member of the local Board, with overall responsibility for the co-ordination, formulation and implementation of all business plans.

Your specific responsibilities include:

- Providing management information locally and finance reporting to Divisional Head Office
- Supporting local management in attaining strategic and operational objectives
- Development of key commercial and market activities involving pricing and brand management
- Management of procurement activities encompassing internal and external trading and reviewing processes to deliver improvements in efficiency and effectiveness

A Qualified Accountant with a successful track record of communicating and influencing at a senior level, you must be capable of balancing business and finance demands. A self starter and an effective leader you will have instigated and implemented major business change and improvement projects within demanding and dynamic environments. Your ability to impact positively will result from your commercial acumen and analytical skills, but most importantly, from your easy ability to build strong relationships across the business, and to work collaboratively and effectively in a fast-moving, creative environment.

Interested candidates should write with full CV, quoting current rewards package to Karen Wilson, Hoggett Bowers, 28 Essex Street, London WC2R 3AT, Tel: 0171 970 9600, Fax: 0171 936 3974, quoting ref: LKW/20585/FT.

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AUDIT MANAGER - SAUDI ARABIA

£85,000 - £90,000
free of tax over two years

BRITISH AEROSPACE

- **£ multi-billion ground operation in support of the Royal Saudi Air Force**
- **Project of unprecedented scale and complexity**
- **A minimum of two years with longer term career prospects**
- **Exceptional salary and benefits package including paid flights to the UK**
- **Ideal opportunity to move into industry**

Based at our headquarters in Riyadh, you will play a key role in Project Al Yamamah, Britain's largest ever export agreement, working in support of the Royal Saudi Air Force.

Your wide-ranging brief will include challenging existing practices with a view to identifying improvements and innovations, carrying out control orientated reviews and planning and executing audits in all aspects of the project at bases throughout the Kingdom.

You may currently be in a major accountancy practice which makes this an excellent opportunity to move into the commercial sector. Alternatively you might already be in a similar audit role elsewhere. Either way, you will be a Chartered Accountant, having trained with one of the 'Big 5' accountancy practices. This is a largely autonomous role which demands a resourceful approach and an outgoing personality together with a high degree of self motivation and customer awareness.

The demands are high but so are the rewards...

- **A salary of £85,000 - £90,000, free of tax over two years**
- **Free food and accommodation**
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- **Comprehensive leisure facilities**
- **Generous leave entitlement and travel allowances**
- **Overseas experience and the chance to enjoy a totally different lifestyle**
- **Long term career prospects with a high profile organisation.**

If you hold a full UK passport and driving licence, please write enclosing a comprehensive CV, to our advising consultant: Sally Toumi, Joint Managing Director, Stark Brooks Associates, Suite 4, 2nd Floor, St James's Buildings, Oxford Street, Manchester M1 6FQ. Tel: 0161 236 1212. Fax: 0161 228 0187.

Financial Recruitment Consultants

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McCorquodale Confidential Print Limited provides management and production of commercial and confidential print services to a prestigious customer list. Independently owned, having undergone an MBO two years ago, the company has recently completed a comprehensive investment programme. Modernisation of the core business and strengthening of its product range, they are now well positioned for the future.

Having experienced continued expansion in recent times, the organisation new feels the need to strengthen its financial function with a professional who has the ability and foresight to take this ambitious company through their latest phase of growth.

Reporting to the Managing Director your remit will cover all aspects of the finance function plus information technology.

Key responsibilities include:

- the provision of detailed periodic management information coupled with control of the transaction processes;
- the production of financial appraisals for all investments and the development of systems to facilitate post contract analysis;
- development of budgetary control and costing processes;
- active participation as a member of the Board and facilitate all contact with financial institutions.

The successful candidate will be:

- a high calibre qualified accountant with at least six years post qualification commercial experience gained ideally within the manufacturing sector;
- a commercially astute team player with well honed interpersonal skills and the ability to communicate and influence at all levels;
- proactive and confident with the ability to deliver results on time and provide quality, focused analysis;
- highly flexible with a shirtsleeves, hands-on approach.

In the first instance, please contact, in complete confidence, James Jeavons or Richard Baker ACMA on 01727 840660. Alternatively, please send your full CV, including the details of your current remuneration, to HW Harrison Willis, 47 London Road, St. Albans, Herts AL1 1LJ.
Fax: 01727 840662.
E-mail: james.jeavons@hwgroup.com
Internet: www.hwgroup.com

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Group Financial Planning & Analysis Manager

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U.K. based, our client is a manufacturing group with a turnover of £1.7 billion, operating in the U.K., Europe and North America. The Group operates in diverse sectors and markets from electrical component manufacture to aluminium extrusion. The business, which in many instances is both brand and market share leader, is being transformed and restructured to meet its full commercial potential. A high profile FP&A team is currently being strengthened to work at very senior levels within Group head office and with operating businesses. The Group FP&A Manager will be responsible for ensuring that the Group Chief Executive, Finance Director, Operating Committee and sector Finance Directors have the fullest understanding of financial performance, the achievability of forecasts and budgets and the actions required to deliver forecast commitments. Of equal importance, the position will also hold responsibility for supporting sector Finance Directors on key project work. There are at least two appointments to fill and the FP&A role is seen by the Group as the seed bed for ambitious individuals with significant talent to progress rapidly into more senior roles. A graduate and qualified accountant, you have a minimum of five years post qualification experience, you will have worked at operational level and ideally at group with some exposure to the FP&A function. Our Client's broad salary band of £50 to £70,000 reflects the balance between, their valuing length / depth of experience of a candidate perhaps in their late thirties early forties, and personal qualities of drive and determination to exceed senior level customer expectation that may be demonstrated by a younger less experienced candidate.

Interviews and a selection will be made before Christmas and candidates are therefore requested to register their interest early by contacting Roger Lilley by phone on **01491-572656**, fax **01491- 573590**, email at **Roger.lilley@btinternet.com**
or by post at the following address:
Roger Lilley Associates
International Management Recruitment
Redvers House, 13, Fairmile
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The group has responsibility for all planning, advice and compliance relating to Corporate, VAT and Employee taxes for all IBM activity in the UK and extensive international activities. Reporting directly to the Tax and Treasury Manager, this particular role involves mainly UK and International Corporation Tax planning and advice.

Ideally you will be ACA with 2-4 years post qualification experience in a leading international firm of chartered accountants or commercial company. Your communication skills will be outstanding and you will be a dedicated team player. Most importantly, you will have a hunger to learn and to seek out new challenges. This role will involve working with business teams in a variety of complex areas and they will expect you to understand their problems and speak their language.

This post offers a superb opportunity to join the leading player in one of the world's most dynamic industries where career opportunities are outstanding.

If you are interested, please send your CV to Donald McFarlane CA at Michael Page Taxation, Page House, 39-41 Parker Street, London WC2B 5LN. Alternatively you can fax him on 0171 831 6662 or e-mail donaldmcfarlane@michaelpage.com

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There is an opening for an ambitious accountant as No. 2 to the Head of Finance. He/she will be responsible for all financial reporting, supervision of the production of financial statements, investment accounting, HM Treasury returns and taxation matters.

This is an excellent opportunity for a qualified accountant with insurance experience to assume new responsibilities and further develop their financial accounting skills. Applicants should be used to working with sophisticated IT systems.

Please send CV to:

Head of Finance, Tindall, Riley & Co., New City Court, 20 St. Thomas Street, London, SE1 9RR. Telephone: 0171 407 3588

Queensgate SPV Services Limited

CAYMAN ISLANDS

Client Accountant **Attractive Tax Free Salary + Benefits**

This exciting specialist fiduciary services company, located in the Cayman Islands, is an offshore services provider to companies involved in structured finance, securitisation and capital markets transactions.

Continued expansion has created excellent opportunities for two qualified ACCA, ACA or CPA's with a minimum of 2 years' post qualification experience to handle the fast growing workload. The positions will include the provision of accounts and accountancy advice to offshore Special Purpose Vehicles involved in all forms of debt issues. Reporting to the Directors, specific responsibilities will include:

- maintaining accounting records for SPV's
- preparing financial statements for SPV's
- liaising with auditors
- administration of voluntary liquidations
- assisting the company's Financial Controller
- assisting in the implementation of the expansion of the company's existing accounting systems

Whilst knowledge of SPV transactions is not essential, all applicants should be computer literate. In particular, knowledge of Excel, Word and Peachtree would be advantageous. The salary will be attractive and is subject to negotiation.

For further information in complete confidence please contact Jane Foster at Laurence Simons International or send a CV to her at the address below. All direct and third party responses will be forwarded to us.

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